FINANCIAL TIMES

World Business Newspaper http://www.FT.com

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Serbs step up crackdown in Kosovo

Nato speeds up plans to seal off province amid reports of 40 deaths and sharp rise in refugees arriving in Albania

By David Buchan in London

Nato allies yesterday accelerated plans to seal off Kosovo as Serb security forces intensified their crackdown on ethnic Albanian separatists.

But a decision on Nato troop deployment could be delayed until the end of the month while the allies wait for military advice.

Serb security forces yesterday said they had dealt "a heavy blow" to the Kosovo Liberation Army in a five-day operation in the south-west of Kosovo, the southern province of Serbia which is part of Yugoslavia. They said 40 people had been killed, including two Serb policemen. That would bring the death toll to more than 250 since March.

Serb forces reduced the town of Decani to rubble, according to an ethnic Albanian leader. News agencies cited Serbian sources who said they had shelled houses because they lacked the manpower to dislodge KLA fighters by other means.

In Brussels, ambassadors of the 16 Nato allies promised to speed up plans to train frontier guards in Albania and Macedonia, which border Kosovo. Nato contingency plans envisage a force that would deter Yugoslav and Serb forces from pursuing the KLA into Albania and Macedonia, and cut arms supply lines to the KLA. But the allies are seeking military advice before deciding whether to send a significant Nato force into or near Kosovo.

The United Nations Commission for Refugees (UNHCR) said 2,000 refugees arrived in northern Albania overnight, bringing the number of refugees who fled there since last week to 3,700. Albania's ATA news agency said another 3,000 refugees were approaching the border.

Nato said it had received reports that "describe even more violence against civilians than has been in the press". They include reports of attacks on minority Kosovar Serbs by the ethnic Albanian majority, enraged by the government repression. This backlash is having repercussions in Belgrade, the Serbian capital, where a local newspaper reported yesterday that 100 Belgrade policemen had been sacked for refusing to be drafted to fight in Kosovo.

The upsurge in fighting has undermined the US-sponsored talks between the Belgrade authorities and Ibrahim Rugova, the moderate leader of the ethnic Albanians, though they are expected to meet again tomorrow in Pristina, the capital of Kosovo.

Albania, like the west, has backed autonomy for Kosovo within Serbia or Yugoslavia, rather than independence, for fear that it might be destabilised by the emergence of a second ethnic Albanian state.

But, hit by the influx of refugees, the Albania government last night called for international intervention "to stop genocide". President Bill Clinton said last week the US "will not tolerate another Bosnia in Kosovo", and Tony Blair, UK prime minister, said yesterday Nato "could not afford to have a situation of disorder spreading" in the Balkans.

However, a Nato official said that contingency plans for Nato troop deployment in Kosovo would not be ready in time for next week's meeting of alliance defence ministers.

Editorial Comment, Page 13

100 feared killed in German rail crash

The Deutsche Bahn train was travelling at 200kph on specially upgraded track in Lower Saxony when it hit a bridge which collapsed. There were 500 passengers on board. Picture: Reuters

By Ralph Atkins in Bonn

At least 100 were feared killed and 300 injured in one of Germany's worst post-war rail accidents yesterday, when a high speed InterCity Express from Munich to Hamburg crashed into a bridge in the north of the country.

The Deutsche Bahn train, travelling at about 200kph (125mph), was derailed on specially upgraded track near Eschede, Lower Saxony, before colliding with a bridge which then collapsed.

The force of the crash, just before lunchtime, ripped off the driver's section, concertinaed at least four carriages and sent wreckage sprawling across hundreds of metres. Bodies were hurled out of the train but others remained still trapped under tons of concrete and twisted metal hours after the crash.

The train is thought to have been carrying about 500 passengers.

Although the driver survived and some passengers walked away from the wreckage, one of the first observers at the site said it was "hard to see how anyone could have escaped uninjured".

It was the first significant crash involving a luxury InterCity Express train. Such trains have operated in Germany since 1991 and can travel at up to 280kph. They travel the 960km from Munich to Hamburg in five hours and 37 minutes.

Children from two school classes were feared to be among the dead. The most seriously injured were taken by helicopter to hospitals throughout the region.

The crash of the ICE884 "Wilhelm Conrad Röntgen" dramatically reverses the downward trend in rail fatalities since the mid-1970s in a country that has traditionally prided itself on the reliability of its extensive railway network.

ICEs carry 65,000 passengers a day. The third-generation ICEs, due to be introduced next year, can reach 330kph. It is thought to be the worst train crash in western Europe for nearly 25 years.

As more than 1,000 emergency workers, including German and British soldiers, launched an unprecedented rescue operation last night, Matthias Wissmann, transport minister, visited the site. "At this terrible time, all my sympathy goes to the dependants of the dead and to the injured," he said. Television stations broadcast appeals for blood donations.

Rescue teams were expected to work through the night as accident investors sought to identify the exact cause of events.

Early reports suggested the crash was caused by a vehicle plunging on to the track as a result of a separate car accident but later the rescue authorities suggested the car might have fallen on to the track after the collision.

Previously, Germany's worst post-war train crash was in Munich in June 1945 as 102 were killed when a US transport train carrying tanks collided with a train transporting German prisoners of war.

In July 1967, 94 were killed in an accident near Magdeburg in eastern Germany when a fuel train exploded near a passenger train.

German banks face lawsuit over assets looted by the Nazis

By John Authers in New York and Andrew Fisher in Frankfurt

Lawyers in New York yesterday filed a class action lawsuit against two large German commercial banks over allegations that they received assets looted by the Nazis during the second world war.

Ed Fagan, of Fagan & Associates, a New York law firm that is also organising the class action against the Swiss commercial banks, said he was launching a "multibillion-dollar" class action against Deutsche Bank and Dresdner Bank, which both have extensive operations in the US.

He said the disclosures of the last two weeks had shown they had worked with the Nazi regime to transfer looted property, including gold teeth taken from concentration camp inmates.

Deutsche and Dresdner said they could not comment on the lawsuit as they had not yet received it. However, the German banks said they had teams of independent historians investigating their activities during the Nazi period, including dealings in gold.

Deutsche recently donated DM5.6m ($3.1bn) to Jewish foundations as the proceeds from the 1995 sale of gold it possessed at the end of world war two, which may have been stolen from Jewish victims of the Nazis.

Campaigners also stepped up their demands that the Swiss National Bank, Switzerland's government-run central bank, should make reparations for its role in the war.

The renewed pressure on the Swiss comes in spite of the US state department's publication of a report this week suggesting several other wartime neutral nations bore equal moral responsibility.

Stuart Eizenstat, the US under-secretary of state who wrote the report, praised Switzerland for the attempts it had made to investigate the issue over the past two years, apparently in an effort to convince the Swiss that they were not being singled out for blame.

However, the New York-based World Jewish Congress, which has led the campaign on behalf of Holocaust survivors, said: "The financial liability of Switzerland seems to be increased. Most of the gold which went to the other neutral countries went through the Swiss National Bank, and it has consistently been American and Allied policy that the initial recipient of stolen goods should be responsible."

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WORLD NEWS

Swiss judge plans to indict Benazir Bhutto for money laundering offences

A Swiss federal judge said he intended to indict former Pakistan prime minister Benazir Bhutto and her husband Ali Zardari for money laundering offences linked to contracts signed with Swiss companies. Page 2

China has no plans for N-tests Chinese president Jiang Zemin said Beijing did not intend to resume nuclear testing despite the recent tests by India, its longstanding rival, and Pakistan. Page 4

France faces World Cup chaos France faced the prospect of severe transport disruptions during the football World Cup as a train drivers' union threatened to join the pilots of state-owned Air France on strike. Page 2

Move to revive Euro-Med talks The European Union began talks with 12 Mediterranean partners in an effort to revive the Euro-Mediterranean initiative. Page 8

Ethiopia-Eritrea dispute worsens The border dispute between Ethiopia and Eritrea exploded into all-out warfare. Page 8

Battle over emissions Europe's petroleum industry is losing a battle to resist demands by the European parliament for mandatory cuts in the amount of sulphur in petrol and diesel from the middle of the next decade. Page 2

Italy's reform bid fails Italy's third attempt in 15 years to reform its weak system of government collapsed, amid a mass of political recrimination. Page 2

Beijing warns about figures The Chinese government told provincial officials to stop fiddling figures, threatening to punish those caught fudging China's notoriously unreliable statistics. Page 4

East Timor 'to stay Indonesian' East Timor, former Portuguese colony annexed by President Suharto in 1975, is to remain an integrated part of Indonesia, President B.J. Habible said. Page 4

Ulster nominations close Nominations for the June 25 elections for the new Northern Ireland assembly closed with the pro-British Ulster Unionist party running 48 candidates and contesting all 18 six-member districts. Page 9

Missing uranium 'never existed' The troubled Dounreay nuclear complex in Scotland sought to explain why a large quantity of highly enriched uranium which it admits is unaccounted for almost certainly never existed. Page 9

Move to quash Marcos jail term The Philippine government said it had recommended the Supreme Court to set aside a 12-year jail term against former first lady Imelda Marcos and acquit her of corruption charges. Page 4

1,188 died in Jakarta riots Indonesia's official human rights body said 1,188 people were killed in rioting which hit the capital Jakarta last month. Page 4

Clinton to renew China's status US president Bill Clinton said he intended to renew China's Most Favoured Nation status. Page 6

Canada delays tobacco restrictions Canada will ban all tobacco sponsorship in five years, but is giving events such as motor racing and jazz concerts a reprieve from restrictions planned for this year. Page 6

BUSINESS NEWS

Russia surprises bond markets with $1.25bn offering in face of turmoil

Russia took the international bond markets by surprise yesterday with a $1.25bn offering priced at almost twice the premium it paid earlier this year. The issue's timing caught bankers unawares in the light of the recent battering Russia has taken on the foreign exchange markets. Page 14

Mirror Group advisers have asked the UK Takeover Panel for clarification from German group Axel Springer, which two weeks ago said it was considering a bid for the British tabloid newspaper publisher. Page 15

Tellabs, the US telecom equipment company, unveiled a $7bn acquisition of rival Ciena. The all-stock purchase spurred Wall Street enthusiasm for other equipment makers. Page 15; Wall Street, Page 34

AT&T: More than a quarter of managers at the US telecoms company are set to quit this year under an early retirement deal. Page 15; Lex, Page 14

Boeing said it had failed to find new customers for the McDonnell Douglas MD-11 aircraft and would stop making it in 2000. This entails the potential loss of nearly 4,000 jobs and signals the virtual end of civil aircraft developed by McDonnell Douglas. Page 8

Newbridge Networks shares fell 5 per cent to C$39.30 after the Canadian telecoms networking equipment maker reported a C$18m (US$12.4m) net loss for the year. Page 18

Yamaichi Securities' auditors are being sued for misconduct by investors in the failed Japanese broker. Page 14 and Lex

Indonesia's privatisation programme sparked another row as it emerged that the previous administration secretly agreed to sell Krakatau Steel to India's Ispat just before ex-president Suharto quit. Page 14

Hyundai Electronics has halted chip production temporarily to help ease a glut and shore up falling prices. Samsung and LG Semicon are expected to follow. Page 19

Peregrine Investments' provisional liquidators have sold the collapsed Asian investment bank's stake in its Philippines venture to ATR Group. Page 19

Arthur Andersen has scrapped its planned takeover of Wilde Sapte, indicating that departures from the City of London law firm had changed the business since the deal was announced. Page 14

The music industry is still seeking a technology to identify digital musical signals. Further tests will delay the adoption of an industry-wide digital identification system by up to six months. Page 8

Lloyd's of London is poised to admit multinationals' captive insurance arms – a move that would hit other captive domiciles such as Bermuda and Gibraltar. Captives are set up to look after parent company insurance needs. Page 9

Euro Prices
A comprehensive statistical guide to the new euro currency zone, covering foreign exchange, bond and equity markets. Page 21

WORLD MARKETS

STOCK MARKET INDICES		
New York: lunchtime		
Dow Jones Ind Av	8,887.50	(-3.74)
NASDAQ Composite	1,769.64	(+7.85)
Europe and Far East		
CAC40	4,149.37	(+62.36)
DAX	5,613.76	(+30.98)
FTSE 100	5,898.4	(+56.1)
Nikkei	15,347.00	(-207.45)
US LUNCHTIME RATES		
Federal Funds	5.56%	
3-mth Treas Bills: Yld	5.124%	
Long Bond	104½	
Yield	5.816%	
OTHER RATES		
UK: 3-mo Interbank	7⅝%	(same)
UK: 10 yr Gilt	111.3125	(111.833)
France: 10 yr OAT	104.55	(104.70)
Germany: 10 yr Bund	108.18	(108.27)
Japan: 10 yr JGB	112.43	(112.59)
NORTH SEA OIL (Argus)		
Brent Dated	$13.155	(13.61)

GOLD		
New York: Comex		
(Jun)	$292.7	(288.6)
London	$290.75	(290.85)
EXCHANGE RATES		
Dollar		
New York: lunchtime		
£	1.64	
DM	1.77065	
FFr	5.9365	
SFr	1.4795	
Y	138.375	
London:		
£	1.6376	(1.6373)
DM	1.7719	(1.7816)
FFr	5.9418	(5.9728)
SFr	1.4763	(1.4911)
Y	138.285	(138.845)
Tokyo close:		Y 138.70
Sterling		
DM	2.9016	(2.9173)

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WORLD NEWS

EUROPE

Swiss judge to indict Benazir Bhutto

By Jimmy Burns in London and Frances Williams in Geneva

A Swiss federal judge said yesterday that he intended to indict Benazir Bhutto, the former Pakistani prime minister, and her husband Ali Zardari for money-laundering offences linked to contracts signed with Swiss companies.

The judge, Daniel Devaud, has already indicted a former senior executive of Société Générale de Surveillance (SGS), the world's biggest testing and inspection company, with money-laundering offences linked to contracts in Pakistan. The executive, Hans Fischer, left SGS last October after an internal company inquiry into allegations of corruption linked to Mrs Bhutto.

Mr Fischer is one of three individuals indicted with money-laundering offences since last Friday. The indictments follow a six-month investigation by Judge Devaud into two separate contracts signed during Ms Bhutto's government with SGS and its former majority-owned subsidiary Cotecna. The other two are Robert Massey, managing director of Cotecna, and Jens Schlegelmilch, a Swiss-based lawyer who acted as an agent for members of the Bhutto family. Pakistani investigators say Mr Schlegelmilch arranged money transactions which they allege were linked to the proceeds of bribes paid to the Bhuttos.

In a statement last night, SGS said: "The company wishes to reassert its firm conviction that none of its executives or employees has directly or indirectly participated in the alleged scheme of 'blanchiment' [money-laundering]." Jean-Pierre Méan, SGS senior vice-president, said in December that his company had paid a "success fee" to Mr Schlegelmilch, for assistance in negotiating a pre-shipment contract with Pakistan.

SGS subsequently clarified that monies were not paid to the Bhuttos or their nominees but to Mr Schlegelmilch for his assistance in ensuring that a contract which had been awarded in 1992, prior to Ms Bhutto taking power, was rendered effective in terms of performance. The contract went ahead in 1994 after Ms Bhutto had come to power.

Mr Massey has stressed that everything his company did was "absolutely and legally safe".

Ms Bhutto has denied that either she or any member of her family engaged in criminal activities anywhere in the world, and has accused the Pakistani government of orchestrating a political vendetta against her.

In a recent interview with the FT, she described Mr Schlegelmilch as a "friend of the family and a respectable citizen who due to the abuse of the international legal system has had his life destroyed".

The indictments in the Bhutto case have been made under a section on money-laundering in the Swiss criminal code.

This defines money-laundering as hiding the identification of assets which the alleged offender "knew or should have known" came from a crime. In the Bhutto case, it is alleged payments made on behalf of the Bhuttos emanated from the proceeds of corruption.

Italy's efforts to reform end in failure and recriminations

Prodi's push for economic and structural changes linked to the single currency may be hampered, reports **James Blitz**

Massimo D'Alema: weakened politically by collapse of reforms

Italy's third attempt in 15 years to reform its weak system of government has collapsed this week, amid a mass of political recriminations in Rome.

The failure of the reforms is a blow to Italy's long-term political stability. It may also make it harder for the government to push through economic and structural changes linked to Italy's participation in the European single currency.

Since the start of last year, a painstaking effort has been made to try and rewrite the 1948 constitution – a document which, written in the aftermath of fascism, contains too many restrictions on executive power to be workable. The reform effort was spearheaded by Massimo D'Alema, the leader of the Democrats of the Left (DS), a member of the governing coalition and the largest party in parliament.

The final draft of the constitutional reform had been haggled over by Italy's numerous political parties and was littered with contradictions and flaws. The process broke down on Tuesday night, when Silvio Berlusconi, the leader of the right-wing Forza Italia, made clear that he was fundamentally opposed to its continuation.

Romano Prodi, prime minister, has long insisted that the constitutional reform effort is self-contained and that its collapse would have no impact on his two-year old executive. The events of Tuesday have not disturbed the financial markets, which are only concerned that Mr Prodi's centre-left government stays in office to fulfil the huge budgetary commitments it has made to preserve Italy's participation in the euro.

This week's events may even have strengthened Mr Prodi's position relative to Mr D'Alema, who has never made any secret that he would one day like to be prime minister. The collapse of what had come to be seen as Mr D'Alema's flagship project can only delay the day.

In the longer term, however, the breakdown of this reform effort could cause problems for Mr Prodi. Sergio Romano, a former Italian ambassador, says Italy's entry into the euro means there is now a huge range of economic and structural reforms that the government must carry out – reforms that involve job losses, battles with the trade unions and an overhaul of the country's inefficient public administration. "It is very hard to see how governments can carry out these painful reforms unless they have strong executive power based on some kind of majority in parliament," he says.

"The continuing weakness of executive government raises questions about whether Italy can maintain the budgetary discipline required by economic and monetary union." Where does the reform drive go from here? The one certainty is that, after all the efforts made to change it, the existing constitution has not a shred of legitimacy left. An attempt to resurrect the project was launched in parliament yesterday, when supporters of constitutional reform began a painstaking line-by-line debate of Mr D'Alema's draft plan. Calls are also being made for the election of a special constituent assembly to take the reforms forward.

Both initiatives look doomed to failure. They would eventually be opposed by Mr Berlusconi, who was primarily responsible for bringing down this latest effort.

Mr Berlusconi faces a range of corruption allegations relating to the operation of his Fininvest empire. He recently began insisting that he would only back the reforms if they curbed the powers of the kind of prosecuting magistrates who hound him daily.

The centre-left parties refused to concede to the demand. Their grass roots supporters believe that, if granted, Mr Berlusconi could go on to request an amnesty. Deadlock over the issue led to the collapse of the reforms on Tuesday night – at the very moment that a Milan prosecutor was demanding a five-and-a-half year jail term for Mr Berlusconi on bribery charges.

Unless Mr Berlusconi leaves the scene, the only chance of re-igniting the constitutional debate will be a nationwide referendum on electoral reform next year.

A group of politicians – including Mario Segni, a former Christian Democrat, and Antonio Di Pietro, the ex-Milan magistrate – are gathering the 500,000 signatures needed to hold such a referendum. If passed, it would make Italy's electoral system fully first-past-the-post, abolishing the 25 per cent college that is still elected on proportional representation.

Mr Romano believes that, of itself, a move to a totally first-past-the-post system would not guarantee parliamentary majorities. Italy still has a mass of smaller parties, one of which would be unlikely to command a majority of seats under such a system.

But he believes a successful referendum would trigger a fresh start to the wider process of constitutional reform. "It would make clear to the politicians that the public wants a new political system, that it understands the need for strong government and that other considerations must be put aside to make sure Italy gets it."

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Petroleum industry losing sulphur battle

By Michael Smith in Brussels

Europe's petroleum industry is losing a multi-million-dollar battle to resist demands by the European Parliament for mandatory cuts in the amount of sulphur to be allowed in petrol and diesel from the middle of the next decade.

EU countries have signalled readiness to agree to parliament's call to convert "indicative" sulphur targets for 2005 into binding requirements as part of negotiations on a programme to cut vehicle pollution.

However, they say they will only accept binding targets if parliament backs down on most of its other demands for toughening the so-called "auto-oil" proposals originally put forward by the European Commission.

The 15 EU nations and parliament will decide jointly the final shape of proposals aimed at cutting emissions of pollutants including nitrogen oxides, benzene and ozone from 2000 onwards. Europia, the petroleum industry organisation, says the measures would cost the industry Ecu50bn (£33.8bn) over 15 years if implemented in full, more than double the cost of the countries' proposals, which were in turn tougher than the Commission's plan.

Parliamentary leaders and the UK government, holder of the rotating EU presidency, are aiming to complete negotiations by the end of this month. Although formal talks have yet to begin, soundings among EU members indicate a readiness to over-ride the Commission on targets for 2005.

The Commission argues that mandatory targets should be set only for 2000 onwards since the scientific case for cuts from 2005 on a "cost effective" basis will only be made in a second auto-oil programme getting under way.

French train drivers in strike threat

By Robert Graham in Paris

France yesterday faced the prospect of severe transport disruptions during the soccer World Cup as one of the main train drivers' unions threatened to join the pilots of state-owned Air France on strike.

The Fgaac, which represents one-third of all train drivers, gave notice of plans to strike as of June 10, World Cup inauguration day.

Other rail unions representing the bulk of the French state railways workforce said the Fgaac threat was little more than blackmail. They said this was an attempt to force pay concessions by threatening disruption of the World Cup, and refused to let their members do the same.

A spokesman for the main pilots' union, SNPL, said there was little prospect of a quick solution to the Air France strike, which crippled the airline's operations for a third successive day.

A second round of talks took place yesterday, indicating that both sides were anxious to give the impression of dialogue as criticism rose over the prospect that the strike would last into next week. Air France is the official carrier for the World Cup. "We are still at the discussion stage. The talks that resumed this afternoon could not yet be called negotiations," the SNPL spokesman said.

Earlier Jean-Cyril Spinetta, Air France's chief executive, told French radio he could not believe the pilots would paralyse the airline during the World Cup. "I am convinced they will understand the gravity of the situation and we will find the means for a negotiated solution."

Until now the Socialist-led government has avoided becoming too directly involved in the pilots' dispute. However, it has approved plans whereby Air France seeks to cut costs by pruning FFr500m ($84m) from the airline's wages bill.

Despite tough suggestions from Jean-Pierre Chevènement, the interior minister, that air force pilots be drafted in to fly Air France aircraft, the government is far from united behind such proposals.

The treasury is anxious to see Air France return to financial health and open up to outside investment.

French to press for EU-ECB dialogue

By Lionel Barber in Brussels

France will relaunch its campaign today for a closer dialogue between European Union governments and the European Central Bank at the inaugural meeting of finance ministers from the future euro-zone.

The 11 ministers are expected to discuss the general rules of the euro-club, a timetable for meetings, and contacts with other key organisations such as the International Monetary Fund.

The meeting in Senningen Castle, Luxembourg, marks the first occasion when future euro-zone countries will gather apart from the other four EU members initially remaining outside: Britain, Denmark, Greece and Sweden.

Though informal and not strictly entitled to take decisions, the new ministerial club is expected to evolve into a crucial forum for the co-ordination of tax and budgetary policy among euro-zone countries.

In a gesture towards Britain, which holds the rotating EU presidency, Gordon Brown, chancellor, will be invited to give a brief introduction before leaving the room. Rudolf Edlinger, Austria's finance minister, will take over the chair.

Dominique Strauss-Kahn, French finance minister, is expected to call for regular meetings between the Euro-11 and Wim Duisenberg, ECB president. In return, the chairman of the Euro-11 will be expected to attend meetings of the ECB governing council in Frankfurt. The French campaign to make the ECB politically accountable will attract support among countries such as Belgium and Italy. But Germany and the Netherlands remain suspicious about French attempts to turn the new club into a political counterweight to the ECB.

Earlier this year, Germany resisted French efforts to set up a permanent secretariat for the euro-club. Instead, meetings will be prepared by the monetary committee, which is drawn from senior treasury officials and central bankers from the 15 member states.

In addition, the Germans, strongly supported by the British, insist that the Ecofin council of the 15 EU finance ministers must remain the chief decision-making forum on matters of macroeconomic policy.

The full Ecofin council will convene tomorrow and prepare the ground for the EU summit in Cardiff on June 15 and 16.

Ministers will consider draft macroeconomic guidelines and a plea from the European Commission to take advantage of the recovery to make a further reduction in public sector deficits.

Mario Monti, EU commissioner for the single market, will present his proposed directive on the taxation of savings which the Commission adopted last month.

FINANCIAL TIMES
Published by The Financial Times (Europe) GmbH, Nibelungenplatz 3, 60318 Frankfurt am Main, Germany. Telephone ++49 69 156 850, Fax ++49 69 596 4481. Represented in Frankfurt by J. Walter Brand, Colin A. Kennard as Geschäftsführer and in London by David C.M. Bell, Chairman, and Alan C. Miller, Deputy Chairman. The shareholder of the Financial Times (Europe) GmbH is Pearson Overseas Holdings Limited, 3 Burlington Gardens, London, W1X 1LE. Shareholder of this company is Pearson plc, registered at the same address.
GERMANY:
Responsible for Advertising content: Colin A. Kennard. Printer: Hürriyet International Verlagsgesellschaft mbH, Admiral-Rosendahl-Strasse 3a, 63263 Neu Isenburg. ISSN 0174 7363. Responsible Editor: Richard Lambert, c/o The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL.
FRANCE:
Publishing Director: P. Maraviglia, 42 Rue La Boetie, 75008 PARIS. Telephone (01) 5376 8254, Fax (01) 5376 8253. Printer: S.A. Nord Eclair, 15/21 Rue de Caire, F-59100 Roubaix Cedex 1. Editor: Richard Lambert. ISSN 1148-2753. Commission Paritaire No 67808D.
SWEDEN:
Responsible Publisher: Bradley P Johnson. Telephone +46 8 791 2345. Printer: AB Kvällstidningen Expressen, PO Box 6007, S-550 06, Jönköping.

Editor: Richard Lambert, c/o The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL.
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NEWS DIGEST

SPANISH 'DIRTY WAR' TRIAL

González government 'not linked to death squads'

A former Spanish security official yesterday denied in court that the administration of the former Socialist prime minister, Felipe González, was linked to the creation of death squads to combat Eta terrorists.

His evidence contradicted statements made by former colleagues during the trial at the supreme court in Madrid into "dirty war" activities against suspected Basque separatists during the early 1980s.

Rafael Vera, who became number two in the interior ministry when Mr González gained power in 1982, pleaded not guilty to charges of kidnapping, belonging to an armed group and misappropriation of funds.

The charges are related to the first undercover action organised by a group called Gal, or Anti-Terrorist Liberation Groups, which claimed 28 deaths between 1983 and 1987 across the Spanish border in south-west France. The area was considered an Eta safe haven at the time.

Earlier in the trial, Julian Sancristobal, whom the González government appointed civil governor of the Basque province of Vizcaya, admitted responsibility for co-ordinating the October 1983 kidnapping of Santiago Marey, a Spanish-Basque resident in France who had been mistaken for an Eta leader.

Mr Sancristobal said the kidnapping had been approved by the interior ministry and had been financed by secret government funds provided by Mr Vera.

Nine more co-defendants have also admitted a role in kidnapping Mr Marey and the launch of Gal. They said they were following interior ministry orders. **Tom Burns, Madrid**

GREEK BANKS

Job guarantees for unions

Greece's bank unions will decide today whether to accept the Socialist government's offer of job guarantees at Ionian Bank and call off a three-week strike.

Yannos Papantoniou, the economy minister, said all 4,200 jobs at Ionian would be guaranteed for two years after the bank is privatised. The bank's new owner would be obliged to apply public sector working practices, including Ionian's scheme for early retirement.

The strike at Ionian appeared to be running out of steam, with employees gradually returning to work at branches around Athens.

State-owned Commercial Bank, which controls Ionian, will seek approval at a shareholders' meeting next week for the sale of a 51 per cent stake through the Athens stock exchange. Tenders from private banks would be invited later this month.

Ionian's sale would mark the first full privatisation of a state-owned Greek bank under the Socialists' programme for banks and utilities. Share packages of around 35 per cent were sold last month in two small state banks, Macedonia-Thrace Bank and General Bank. Two more small state banks, Cretabank and Bank of Central Greece, are due to be privatised over the summer. **Kerin Hope, Athens**

TURKISH PREMIER

Yilmaz to step down this year

Turkey's prime minister, Mesut Yilmaz, said yesterday he would resign by the end of this year to allow the formation of a caretaker administration ahead of early general elections to be held next spring.

Mr Yilmaz's announcement was widely expected after he began talks in April with a key opposition leader, Deniz Baykal, head of the centre-left People's Republican party.

Mr Baykal, who holds the balance of power in parliament, wants Mr Yilmaz to hand over to an interim government of independent technocrats before elections, in return for his party's support for economic reforms blocked in parliament.

However, members of Mr Yilmaz's Motherland party warned they might not back the pact. Since taking office last July at the head of a three-party minority coalition, Mr Yilmaz has often promised early elections. **John Barham, Ankara**

FOREIGN INVESTMENT

Xerox builds Irish operations

Xerox, the US information technology company, is to create 2,200 jobs in Ireland in a I£200m ($286m) investment setting up a manufacturing and technical support centre for its European operations.

The investment in Dublin and Dundalk, on the border with Northern Ireland, is one of the largest of recent years, and underlines Ireland's continuing attraction as a location for US companies despite the skills shortages in some sectors.

Mary Harney, the deputy prime minister, said 1,500 jobs would be created in Blanchardstown in Dublin and 700 in the economically depressed north-east in Dundalk.

Ms Harney said the Ulster peace agreement provided grounds for hoping for greater investment in the border counties, north and south. **John Murray Brown, Dublin**

DUTCH PETROL STATIONS

Brussels begins inquiry

The European Commission opened an investigation yesterday into Fl 126m ($64m) of state aid provided by the Dutch government to 624 petrol stations near the German border.

The Dutch government says the subsidies, due to last until July 2000, fall below the threshold which triggers EU regulation. Each station will receive less than Ecu100,000 ($111,000) throughout the duration of the plan. But the Commission said the aid might affect cross-border competition.

The aid is meant to compensate the owners of petrol stations for the loss of business caused by a July 1997 increase in petrol taxes. Stations near the border are believed to have lost sales to nearby German petrol outlets.

The amount of the subsidy to each station is linked to the volume of sales and the distance from the border – the nearer the border, the higher the subsidy. **Samer Iskandar, Brussels**

CENTRAL BANK HEAD

Finnish coalition conflict

A political row has broken out in Finland over the appointment of a new head for the central bank, posing a threat to the ruling five-party coalition's cohesion.

The conflict was triggered by the departure last week of Sirkka Hämäläinen, Bank of Finland governor, after her appointment to the European Central Bank's executive board.

Disagreement over her successor has turned into a stand-off between the Social Democratic party, which leads the coalition, and the Conservative party, its chief partner, ahead of next year's general election.

The dispute hinges on the refusal of the Conservatives, led by the finance minister, Sauli Niinistö, and the main opposition Centre party to sanction the appointment of a new member to the bank's board following Ms Hämäläinen's move.

The two parties say a fifth appointee is unnecessary as many of the bank's key monetary powers will shift to the Frankfurt-based ECB by virtue of Finland's participation in European economic and monetary union. **Greg McIvor**

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RUSSIAN CRISIS PM GOES TO FRANCE AS SHARE PRICES RALLY

Moscow to boost shareholders' rights

By Chrystia Freeland and John Thornhill in Moscow

Russian authorities vowed to crack down on bankrupt companies and beef up protection of shareholder rights yesterday, amid tentative signs that the national financial crisis was easing.

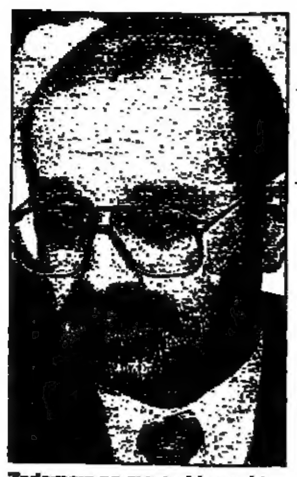
Russian share prices made sharp gains for the second day in a row, following last week's sharp falls, and treasury bill yields eased, prompting hopes that the financial storm which last week pushed interest rates to 150 per cent was abating.

The RTS, the leading stock market index, rose almost 8.5 per cent.

In a display of sang froid, Sergei Kiriyenko, prime minister, went ahead with a scheduled visit to France, saying the economy was robust enough to withstand his absence.

"I am not afraid of leaving. I am absolutely certain that the situation is under control," Mr Kiriyenko said before leaving for Paris, the news agency Interfax said. "All members of the government and the central bank know their duties and are coping with them wonderfully."

In another sign of the cabinet's confidence, Mikhail Zadornov, finance minister, reiterated the government's repeated assertions that it was not seeking western aid beyond the latest tranche of a $9.2bn International Monetary Fund loan.



Zadornov: no more aid sought

Referring to the possibility of a western emergency credit, he said: "We have decided as a matter of principle not to do this."

However, the belief that a western aid package is forthcoming underpinned yesterday's market stabilisation. If no support materialises over the next few weeks, investors could again grow jittery.

The average annualised yield on a new 343-day tranche of treasury bills was 54 per cent, while one-week treasury bills sold for under 40 per cent. Last week, yields rocketed above 80 per cent.

"Of course, it is too early to say the crisis is behind us, but we do see some positive trends and I am cautiously optimistic about future developments," said Dmitry Vasiliev, the head of the Federal Securities Commission, the Russian stockmarket watchdog agency.

He promised more rigorous protection of shareholder rights and said his commission would bar Russian companies from access to international capital markets unless their financial reports were of a sufficiently high standard.

In a further effort to boost investor confidence in the Russian economy, Georgy Tal, head of the federal bankruptcy agency, outlined new fast-track bankruptcy procedures. He also named four companies his agency has targeted for bankruptcy.

Ineffective bankruptcy rules and poor protection of shareholder rights are two of the biggest criticisms levelled against the Russian economy.

Ankara cracking down on the 'Anatolian lions'

Pro-Islamic businessmen see a conspiracy against them by Turkey's western-oriented institutions, writes **Kelly Couturier**

If a prosecutor in Ankara has his way, Erol Yarar, chairman of Turkey's powerful pro-Islamic business association, will soon go to prison and his organisation will be dissolved.

Mr Yarar and his Independent Industrialists and Businessmen's Association, known as Musiad, are the latest targets of a military-backed state crackdown against religious radicalism. Over the past year, it has led to the banning of Turkey's largest political party, and the jailing or prosecution of several Islamist politicians.

Charged with "inciting hatred among the public" in a speech last year, Mr Yarar faces a maximum three-year prison term if found guilty. The state security court prosecutor in the same case has demanded that Musiad be closed down, on the grounds that Mr Yarar's speech violated a law governing associations.

Musiad, which mainly represents small and medium-sized enterprises based in central Anatolia, has, since its establishment in 1990, presented itself as a geographical and ideological alternative to Turkey's business establishment based in Istanbul.

Musiad's nearly 3,000 members – representing 10,000 businesses and 600,000 employees – largely support pro-Islamic business practices, including interest-free transactions. They have also challenged Turkey's western-oriented business climate, preferring to promote trade with east Asian and Moslem nations.

The association reports a combined investment capital of $2bn and combined yearly exports of $6bn-$7bn. It has alleged that secular state institutions and powerful Istanbul industrialists have conspired against it, fearing the growing economic strength of the "Anatolian lions" of Musiad, as the association's members are dubbed.

A senior Musiad official said such a conspiracy was behind the court's move to dissolve the association. "Such pressures are provoked by our competitors in Istanbul. Those conglomerates used to have the whole cake, and they don't want to share it," he said.

Musiad denies close links to Turkey's new pro-Islamic political movement, the Virtue party.

But many in the association endorsed the former Islamist prime minister, Necmettin Erbakan, who led a brief pro-Islamic coalition from June 1996 to June 1997.

Mr Erbakan stepped down under heavy military pressure after refusing to enact anti-Islamist measures. His Welfare party, which took the most votes in the 1995 general election, was subsequently banned for anti-secular activities.

The Virtue party regroups most members of Welfare. Musiad members have generally defended the views of Turkey's sizeable conservative religious community and have spoken out against the state's crackdown.

In the speech that landed him in trouble, Mr Yarar is said to have likened supporters of an education reform aimed at slashing enrolment in religious secondary schools to dogs and to have sworn to wage a "liberation struggle" against the reform.

Many religious conservatives resent the education reform and other measures taken by the government of Mesut Yilmaz, the prime minister, over the past year. They include stricter enforcement of dress codes that ban Islamic attire such as headscarves in public buildings and universities.

Mr Yarar joins a list of prominent pro-Islamic figures to be targeted by courts in the crackdown. Mr Erbakan, who was banned from politics after Welfare's dissolution, and the Istanbul mayor, Recep Tayyip Erdogan, are also facing lawsuits based on speeches or public statements they made.

'Our competitors in Istanbul used to have the whole cake, and don't want to share it'

A number of pro-Islamic mayors are currently serving prison terms on similar charges.

Mr Yarar, 39, a Musiad founding member, described the charges as "another violation of freedom of expression" and called on all parties in Turkey to condemn the action.

The state's action against Musiad is not the first to target pro-Islamic businessmen. In April, police raided the offices of Dost Insurance in several cities and detained about 16 businessmen suspected of giving financial support to Islamic activists.

Musiad officials report an outpouring of support for the association in the wake of the court case, from business associations, chambers of commerce, rights organisations and industrialists at home and abroad.

Omer Bolat, general secretary of the association, said care should be taken that the Turkish economy was not harmed by the current "developments in the political field".

A political commentator, Ilnur Cevik, editor of the English-language Turkish Daily News, echoed that concern. "Now it seems [the authorities] have decided to act and deal a blow to Musiad. However, they have to be aware that such a move will be a blow to Anatolian capital and will create much resentment and alienation at a time when we have to maintain unity and solidarity in our business world."

Spanish budget deficit 'will be below target'

By David White in Madrid

Spain's centre-right government has countered reports of looming budget problems by forecasting that the deficit this year will be well below the figure it submitted to the European Union for the start-up of the single currency.

Rodrigo Rato, finance minister, said he could "guarantee" that the overall public sector deficit would be Pta250bn ($1.7bn) below the target laid down in Spain's convergence plan.

He refused to comment on reports in the newspaper El País that the prime minister's budget office had predicted there would be a slippage in the deficit over the next few years.

Publication of details from the alleged budget office document revived a dispute stirred up last month by the opposition Socialist leader, José Borrell. He had accused the government of disguising a budget shortfall by manipulating its social security accounts.

It also raised fresh controversy about the role of José Barea, a veteran economics professor whom the prime minister, José María Aznar, called in two years ago to head a special budget advisory unit attached to his own staff and separate from the finance ministry. Mr Borrell's attack on the government's record was also alleged to be based on estimates leaked from Mr Barea's office.

The authenticity of the material published by El País could not be confirmed. The document suggested that the public sector deficit would increase to 2.5 per cent of gross domestic product in 2000, compared with the 1.6 per cent target laid down in the convergence plan approved by Spain's EU partners last year.

According to El País, the estimates reflected extra spending commitments such as the switch to fully professional armed forces. Mr Rato said he had no knowledge of any such document. "We are not worried," he added.

He said expenditure controls and accelerating economic growth would enable Spain to reduce its overall public sector deficit this year to 2.2 per cent of GDP. This compares with a below-target figure of 2.6 per cent last year and a budgeted deficit of 2.4 per cent this year.

Spain's convergence plan contained a prediction of a 1997 deficit of 3 per cent – in line with the requirement for adopting the euro – and 2.5 per cent this year, falling to 2 per cent next year. But Mr Rato said the government intended to revise its forecasts downwards.

Dutch growth at 7-year high

By Gordon Cramb in Amsterdam

The Dutch economy grew 4.2 per cent in the first quarter of 1998 year-on-year, the strongest rate in seven years, driven by vigorous consumer demand and expansion in information and communications services.

The pace picked up from a year-on-year rate of 3.8 per cent in the previous three months, according to preliminary figures for gross domestic product yesterday from the official Statistics Netherlands agency.

It provides a favourable picture for leaders of the three-party coalition of social democrats, centrist reformers and free-market liberals, in negotiations on forming a new government.

The coalition, in power since 1994 and internationally praised for its economic achievements, is seeking agreement on a detailed spending programme after improving its standing in a general election last month.

Analysts expect the higher growth rate to be maintained in the current quarter. That is not least because the country is now free of a swine fever epidemic which last year hit pig rearing.

Figures for household consumption yesterday showed a 2.9 per cent volume increase in the quarter compared with the same period of 1997. Purchases of consumer durables were ahead by 3.8 per cent, and went into appliances and furnishing rather than clothes.

Consumer confidence is at its highest since calculations began in 1972. Figures for May indicate that the Dutch expect a further improvement in the economy over the next 12 months.

Manufacturers are not so sure. Latest data show producer confidence dipped in April, resuming a retreat from the second half of last year. That was attributed mainly to pessimism over companies' ability to secure productivity gains.

The number of registered unemployed is at its lowest since 1981, and stands some 39 per cent below its latest peak of four years ago.

Wage inflation is rising, however. According to the employment ministry, collective pay deals for 1998 are so far averaging 3.9 per cent, compared with 1.8 per cent last year.

E Timor to stay Indonesian, says Habibie

By Peter Montagnon in Jakarta

East Timor, the former Portuguese colony annexed by President Suharto in 1975, is to remain an integrated part of Indonesia, the country's new president, B.J. Habibie, said yesterday.

Mr Habibie told the BBC in one of his first interviews since taking office that he was opposed to the idea of a referendum to allow East Timor's 700,000 inhabitants to determine their own future. But western diplomats say that behind the new president's apparently hardline approach lies an awareness among his officials that a new opportunity exists for progress on a problem that has dogged Indonesia's international relations for more than 20 years.

President Suharto's outright refusal to countenance autonomy was long seen as an obstacle to a diplomatic resolution of the East Timor problem. It left Indonesia virtually isolated and vulnerable to criticism of its human rights record after the United Nations refused to recognise the annexation.

But though Mr Habibie wants East Timor to remain part of Indonesia, diplomats said they detected a willingness in some parts of his administration to contemplate a more open approach to the concept of autonomy within Indonesia.

A concern in Jakarta remains that Portugal, which, according to the UN is still the legitimate power in East Timor, will not soften its own insistence on a referendum, and progress will require movement on both sides, diplomats said.

Some officials are even considering whether Indonesia should bow to international pressure and release Xanana Gusmão, the imprisoned East Timorese freedom fighter, but they are wary of making such a gesture without some equivalent concession from Portugal in return. Officially Mr Gusmão has not been released because he is serving a 20-year prison sentence for criminal rather than political offences.

Separately, Mr Habibie reaffirmed his intention to remain in office at least until the turn of the century despite mounting pressure for him to prepare for speedy elections. Several hundred students marched through central Jakarta yesterday calling on him to resign as the public campaign for his departure apparently intensified.

But Mr Habibie said it would be six months before the People's Consultative Assembly could ratify political reforms and the end of next year before direct elections could be held for a new parliament. Only after that could the presidency change. Moves towards democracy must be made "according to the constitution", he told a television interviewer.

Suharto past surrounds man in the middle

By Sander Thoenes in Jakarta

The portraits in the office of Ginanjar Kartasasmita, Indonesia's powerful co-ordinating minister for economics, finance and industry, still show President Suharto and Vice President B.J. Habibie.

It is not surprising Mr Ginanjar has not had time to change them. In his eight working days in office since Mr Suharto resigned, he has seen banks collapse, food stocks dwindle and economic forecasts revised downward to a fall of 10 per cent or more.

He has to lead talks with the International Monetary Fund over $43bn in stand-by credits and guide troubled debt renegotiation talks that cover more than $67bn in offshore corporate debt.

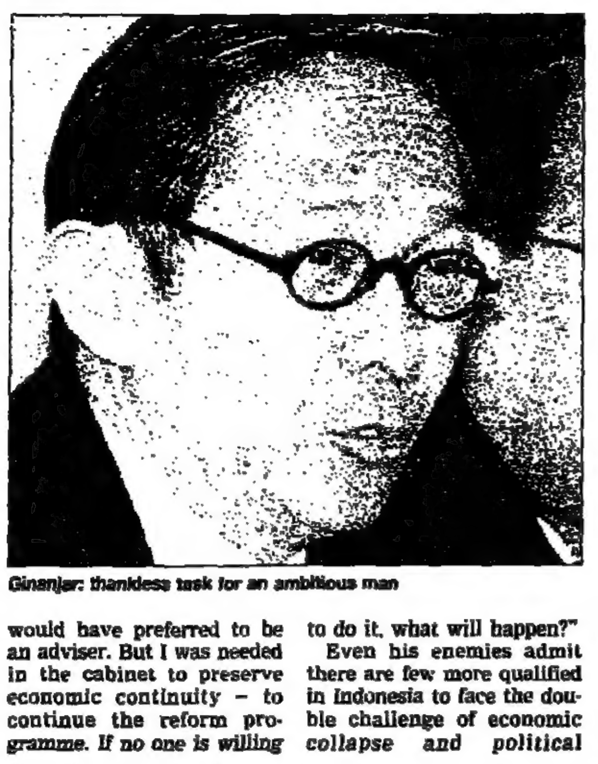
"This is a Ginanjar cabinet," a diplomat said. "If Ginanjar says 'I quit', the whole government collapses. He has put himself in a strong position for the power struggle. That power struggle did not finish with Mr Suharto's resignation, it has only just begun."

As de facto prime minister of the first Habibie cabinet, Mr Ginanjar also faces growing pressure from student protesters and opposition groups to allow for elections this year, instead of late next year as Mr Habibie envisages.

"Politics is now the determining factor," Mr Ginanjar said. "The key to our economic recovery is restoration of confidence. Now it is entirely decided by how markets see our political development. We hope elections can be held early next year," he added, contradicting his president.

With strong political ambitions that made him a rumoured candidate for succeeding Mr Suharto in previous years, Mr Ginanjar has a thankless task.

"It will not really help me if I have any political aspirations," he acknowledged. "I would have preferred to be an adviser. But I was needed in the cabinet to preserve economic continuity – to continue the reform programme. If no one is willing to do it, what will happen?"



Ginanjar: thankless task for an ambitious man

Even his enemies admit there are few more qualified in Indonesia to face the double challenge of economic collapse and political upheaval. A chemical engineer who studied in Tokyo and speaks fluent Japanese and English, he is also a retired air force officer, a seasoned civil servant in all of Mr Suharto's cabinets and an astute politician with an open mind on the rapid pace of political reform.

Easily the cabinet's smartest dresser, Mr Ginanjar, 57, is one of very few ministers versed in the art of public relations, and his charm and skills quickly warmed the IMF and many member countries to him and his team.

Diplomats and senior ministers say Mr Ginanjar played a big role, as minister with the same portfolio in the previous cabinet, in persuading Mr Suharto to step down.

But the image of Mr Suharto still stares down on Mr Ginanjar as he speaks, and his long ties to the former president have become a political liability. His office also still displays a model Sukhoi fighter jet, reminding Indonesians of a $500m government procurement deal with Russia, which he brokered amid accusations of a lack of transparency.

For much of his tenure, Mr Ginanjar headed government agencies which oversaw procurement and investment, hallmarks of Suharto-style patronage. Of 20 companies listed by a respected Indonesian weekly as linked to government ministers, nine are run by his son and two younger brothers.

"Those are things that happened in the past," Mr Ginanjar said. "We have a clean slate."

"New brand, old product," countered Rizal Ramli, a critical economist who went as far as to urge the IMF to stop supporting Indonesia until Mr Habibie, Mr Ginanjar and his cabinet make way for clean reformers. While the IMF may give Mr Ginanjar the benefit of the doubt, few of his own people will.

NUCLEAR POLICY CHINA STANDS BY BAN

No plans for new N-test, says Jiang

By James Kynge in Beijing

Jiang Zemin, China's president, said yesterday that Beijing had no intention of resuming nuclear testing despite the recent tests by India, its longstanding rival, and Pakistan.

Mr Jiang's comments, quoted by the foreign ministry, came after a senior Chinese official this week declined to rule out the possibility that Beijing could test again if its "supreme national interests" were threatened.

China has signed the Comprehensive Test Ban Treaty (CTBT), which seeks to prohibit nuclear testing. India's tests, however, had raised doubts over China's commitment to the CTBT, especially if New Delhi was to develop nuclear missiles capable of striking key Chinese cities.

But a senior Chinese official offered the assurance that Beijing still regarded the CTBT and nuclear Non-Proliferation Treaty (NPT) as the best available means to arrest the spread of nuclear weapons.

"Let's try to redouble our efforts and speak with one voice," said the official. "I think India and Pakistan should join the CTBT and the NPT."

Foreign ministers from the five permanent members of the UN Security Council are to meet in Geneva today to discuss how to prevent a nuclear arms race in south Asia. If either India or Pakistan were to remain outside the CTBT, it would undermine the treaty's central principle of universality.

But the senior Chinese official said that even if India and Pakistan did not join the CTBT, this would not necessarily end the treaty's usefulness. The treaty was not only a legal document, it also embraced a moral standard and could therefore have an enduring effect, the official said.

China has been forced to walk a diplomatic tightrope in its reaction to the south Asian tests. It has sought to condemn India – which last month identified China as a prime potential enemy – but not to the extent of goading it into developing missiles capable of striking inland China.

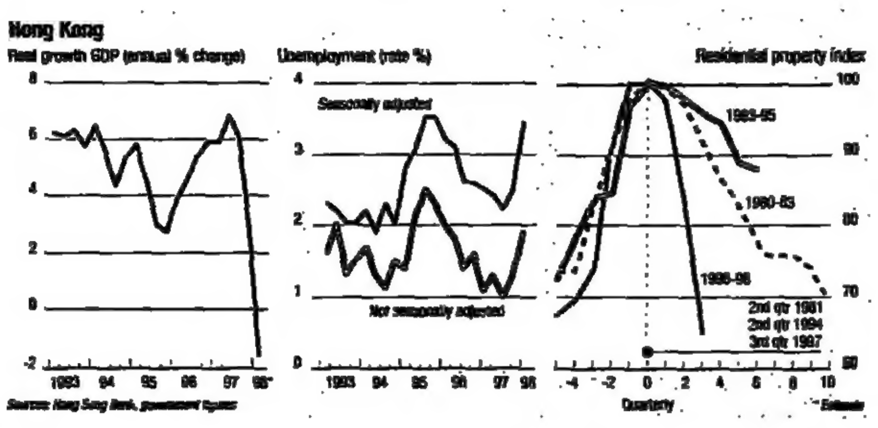
China was also pressing for a resolution to a territorial dispute between India and Pakistan over Kashmir. But officials said that such pressure would be applied only through international forums, such as the UN, so as to avoid violating Beijing's own principle against direct interference in the internal affairs of other countries.

A second senior official said that Beijing was against the direct involvement of any foreign country in the Kashmir issue which, he said, should be resolved by India and Pakistan with consultation from the UN. India insists Kashmir is a purely bilateral issue, while Pakistan tries to involve foreign powers in it.

On the question of its border disputes with India, China was reluctant to enter into substantive talks, officials said. Beijing rejects utterly the notion that underlying tensions between China and India played a part in convincing New Delhi to test. Therefore there is no urgency to seek a resolution to bilateral disputes, the officials said.

Hong Kong braces itself for full-blown recession

Few doubt the pain will prove protracted and add to pressure on the territory's peg against the dollar, writes **John Ridding**



Source: Hang Seng Bank, government figures

Even bears have been surprised at the speed and severity of Hong Kong's economic reverse. After the announcement last week of a fall in first-quarter output, the territory is bracing for full-blown recession and its worst downturn in decades.

The slump presents the post-colonial government with a sharpening dilemma as it struggles to bolster confidence without compromising its non-interventionist credentials. It has focused attention on the duration and damage of the downturn and the strength of the peg to the US dollar, the linchpin of the financial system.

Few now doubt the pain will prove protracted. "Hong Kong is heading into a long downturn," says Dong Tao, senior regional economist at CSFB. He sees parallels with the 1973-75 crisis in which an external shock – then the result of oil prices – led to structural problems in property and banking.

This time, the trigger was the regional financial crisis. But the local fallout has swiftly become apparent. Hang Seng Bank says the fall in property prices since the peak last year has wiped a staggering HK$1,355bn (US$175bn) from the value of the total stock of private housing, equivalent to about half of total bank deposits.

Though the banking system is now robust, with all banks having double-digit capital adequacy ratios, the deflationary pressures are clear. Economists now predict the economy will shrink by between 1 and 3 per cent for 1998 as domestic woes are compounded by the falling yen and continued regional turmoil. Despite a bounce yesterday, the benchmark share index is down more than 25 per cent since March, with many analysts forecasting a further correction.

Hong Kong's government is confident the territory can weather the storm. "We can stand the pain," says Donald Tsang, financial secretary. He admits there will be corporate casualties, but says adjustment and asset deflation are necessary to restore competitiveness. China remains an engine of growth, he says, and Hong Kong will re-emerge from the crisis as a robust regional financial centre.

Despite the pain of high interest rates needed to defend the peg, the government dismisses any change in the exchange rate mechanism. Officials underline the devastating consequences that abandoning the peg could bring, ranging from capital flight to soaring interest rates. Many economists agree. "There is simply no feasible and practical alternative," says Dong Tao.

The consensus among financial analysts is that speculators cannot break the peg, but that the exchange rate mechanism is vulnerable to a massive switch of deposits from Hong Kong to US dollars. So far, that has not happened. Hong Kong dollar accounts represented 57 per cent of total deposits at the end of April, unchanged from a year ago.

But for some commentators, the scale of the territory's troubles are likely to shake public support for the peg. "For now, the exchange rate mechanism remains sacrosanct for both Hong Kong and Beijing," says Christopher Wood at Santander Investment. "But what will public sentiment be when unemployment doubles to 8 per cent?" He believes "the sheer momentum in terms of intensifying pain" spells the end of the peg as early as this year.

For the peg, as for the economy, confidence will prove the key. Mindful of this, the government has announced stimulus measures to improve bank liquidity, shore up the property market and assist the tourist sector. The measures are intended to bolster the economy until measures announced in February's budget feed through. These include a tax cut package and a HK$235bn five-year infrastructure programme.

Critics view the measures as insufficient. "We are talking about a very big crisis here, and the government is talking about building a cable car," said Professor Richard Ho, dean of the business faculty at the City University, referring to one of the measures.

Yesterday's call by recently elected legislators for bolder actions suggested an increasingly politicised battle over economic policy. So, too, did a protest last weekend by several hundred disgruntled homeowners, demanding financial assistance after the value of their properties plunged.

The government's response will be crucial for foreign investors. Some commentators have already expressed concern at the suspension of anti-speculation rules designed to bolster the property market. They argue the move smacks of intervention and suggests a sop to the big developers.

Mr Tsang rejects such claims, underlining Hong Kong's commitment to small government. As Joseph Yam, head of the Hong Kong Monetary Authority, put it this week: "We should not lose our nerves and panic into doing things that would undermine the credibility of our well tested system." But with the misery set to mount that system now faces its biggest test.

Territory seeks to create jobs

By John Ridding in Hong Kong

Hong Kong's government yesterday announced a package of measures to tackle rising unemployment in the territory, a further step in its bid to bolster confidence as the economy slides into recession.

The announcement came as parties from across the political spectrum united in a call for stronger measures to counter the downturn. Their demands, which include tax and rate cuts, signalled a growing political debate over economic management and the prospect of legislative opposition to the post-colonial administration.

"There is a rainstorm out there, the government should provide us with umbrellas," said Allen Lee, leader of the Liberal party. "If these policies should result in a budget deficit, we will support the budget deficit," he said.

Donald Tsang, financial secretary, said at least 100,000 jobs would be created over the coming 18 months, although more than 40,000 will come from infrastructure schemes announced before. Other measures include vocational training and education programmes and about 1,000 jobs in minor public works, such as grass-cutting and painting schools.

Unemployment has become the territory's main social concern, hitting a 14-year high of 3.9 per cent in April. Economists predict the rate could double by the end of the year.

The jobs package comes just days after the government announced stimulus measures to support the property sector, increase liquidity in the banking system and support the tourist industry. Some of the measures have prompted concerns of government intervention in an attempt to revive the economy, which contracted by 2 per cent in the first quarter of the year. Mr Tsang rejects such claims, arguing that Hong Kong remains committed to "small government".

Yesterday's measures drew a mixed reaction from the investment community. Mark Konyn, director of Dresdner RCM Global Investors, said education and training measures were necessary to improve Hong Kong's competitiveness as a financial centre. But he said the nature of the downturn, resulting from a combination of falling consumer confidence, high interest rates and collapsing tourism, limited the government's powers. "It is unclear how effective the government can be," he said.

NEWS DIGEST

DRIVE FOR RELIABLE ECONOMIC REPORTING

China threatens officials who 'doctor' statistics

The Chinese government yesterday told provincial officials to stop fiddling figures, threatening to punish those caught fudging China's notoriously unreliable statistics.

Wen Jiabao, the vice-premier, was quoted in the People's Daily, mouthpiece of the ruling Communist party: "Some are cooking accounts to exaggerate their achievements. Some are practising deceit on their reports to cover up problems."

China's state statistics are treated with scepticism by international economists, who assume that the legacy of the central planning era, when officials were required to make the regional figures fit the government's pre-determined annual targets, continues to distort economic reporting.

Suspicions that officials still tend to produce rosy statistics to satisfy higher government authorities have prompted many analysts to believe that China's gross domestic product figures may exaggerate growth by as much as two percentage points. Officially, China's GDP grew at a 7.2 per cent rate in the first quarter of 1998, its slowest pace in several years.

Beijing is planning to establish supervisory bodies which will check up on fraud and punish irregularities among those officials who gather China's statistics, according to Mr Wen. He said false reporting "will seriously affect the quality of statistical figures and scientific macroeconomic decision-making, and hamper the healthy development of the national economy." China has set itself a target of 8 per cent economic growth this year. **James Harding, Shanghai**

MANILA TURNAROUND

Plan to quash Marcos jail term

The Philippine government, in a dramatic turnaround, said yesterday it had recommended the Supreme Court set aside a 12-year jail term against former First Lady Imelda Marcos and acquit her of corruption charges.

The solicitor general, Romeo de la Cruz, said the verdict by the anti-graft court that found the widow of former President Ferdinand Marcos guilty was wrong and should be overturned.

The case is one of scores against Mrs Marcos, whose husband's 20-year rule ended amid accusations of corruption and abuse of power. Mr de la Cruz said it was up to the Supreme Court to accept or reject his recommendation.

The anti-graft court in 1993 found Mrs Marcos guilty of violating the anti-graft and corrupt practices law for leasing state property to a private foundation she headed under terms allegedly grossly unfair to the government.

The government has accused the Marcoses and their business associates of stealing up to $5bn from the economy during their 20-year rule. **Reuters, Manila**

HUMAN RIGHTS COMMISSION

Jakarta counts riot toll

Indonesia's official human rights body said yesterday that 1,188 people were killed in rioting which hit the capital Jakarta last month, more than double the death toll given by the military. The National Commission on Human Rights said thousands of shops, offices and vehicles were burned, women were raped and at least 101 people were injured. But it gave no details on the causes of the deaths or injuries.

Indonesia's military said more than 500 people were killed in the May 12-15 riots, most of them looters who were trapped in burning buildings.

It said ethnic Chinese, who dominate Indonesia's economic life, bore the brunt of the losses in the riots. Government policy had created a socio-cultural wall between ethnic groups that was difficult to control, it said, adding that the sharp wealth gap between racial groups stifled attempts at integration. The commission pointed the finger of blame at the inadequate response of the security forces in controlling the riots once they had started. **Reuters, Jakarta**

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صورة من الاصل

Global brands
Local citizens

Our brands are a fundamental part of everyday life all around the world.

So are we.

The success of our brands rests on the long-term prosperity of the communities where they are enjoyed. We strive to play an active part in their social, economic and environmental well-being and to make corporate responsibility a mainstream activity throughout our businesses.

Diageo has committed 1% of annual profits to support the community activities of our people and brands. These include the 6,000 Pillsbury volunteers who mentor young people; the Guinness and UDV *Water of Life* programme, which has given 80,000 people in developing countries access to fresh water for the first time; and Burger King's support for *Kids and the Power of Work*, which has helped more than 50,000 primary school children to understand the world of work.

Across many brands and many markets these activities aim to help give people the freedom to succeed, an essential part of our core business values.

The Diageo Foundation, launched today, will help us to invest the same energy and skills in supporting our communities as we do in building our brands.

Johnnie Walker
Pillsbury
BURGER KING
GUINNESS
SMIRNOFF
BELL'S
KILKENNY IRISH BEER
Häagen-Dazs
GORDON'S SPECIAL LONDON DRY GIN ENGLAND
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CALIFORNIA BALLOT VOTERS REJECT INITIATIVE ON LABOUR UNION SUPPORT FOR CANDIDATES

Blow for campaign finance reforms

By Gerard Baker in Washington and Christopher Parkes in Los Angeles

Legislative attempts to cut the vast amounts of money spent on US political campaigns looked doomed to failure yesterday after voters in California delivered heavy blows to efforts at campaign finance reform.

In a statewide vote on Tuesday, Californians rejected a ballot initiative that would have required labour unions and other groups to obtain written consent from a union member before using fees for political purposes.

The measure, backed by Republicans but opposed by Democrats, who would have lost tens of millions of dollars in union money as a result, was narrowly defeated by 54 per cent to 46 per cent. The campaign was closely watched by politicians in Washington, where Republicans are attempting to pass similar laws that would inhibit unions' political activities nationwide.

Unions and Democrats welcomed the results. Arthur Coia, general president of the Laborers' International Union of North America, said the vote was a victory against Republicans' "attempts to silence the political voice of working families".

California voters also undermined calls from many Democrats for a halt to big spending on election campaigns. By roundly rejecting candidates for statewide office who had spent unprecedented sums, they allayed fears that big money candidates were "buying" elections.

Gray Davis, the current lieutenant governor of the state, saw off challenges from Al Checchi, former co-chairman of Northwest Airlines, and millionaire Jane Harman, to gain the Democrat nomination for the election to replace governor Pete Wilson.

Mr Checchi spent $40m, while Ms Harman spent about $15m, making the campaign the costliest in history. Mr Davis had deliberately eschewed heavy spending throughout the primary campaign.

Exit polls suggested voters had been unhappy at the scale of money deployed in the campaign.

In the other ballot of national significance, Californians embraced crash-course English lessons to speed the assimilation of immigrants, as the union-backed campaign to retain bilingual education failed miserably.

More than 60 per cent of the electorate – representing all ethnic and political groups – voted to switch to one-year English-language immersion courses for students with limited language skills.

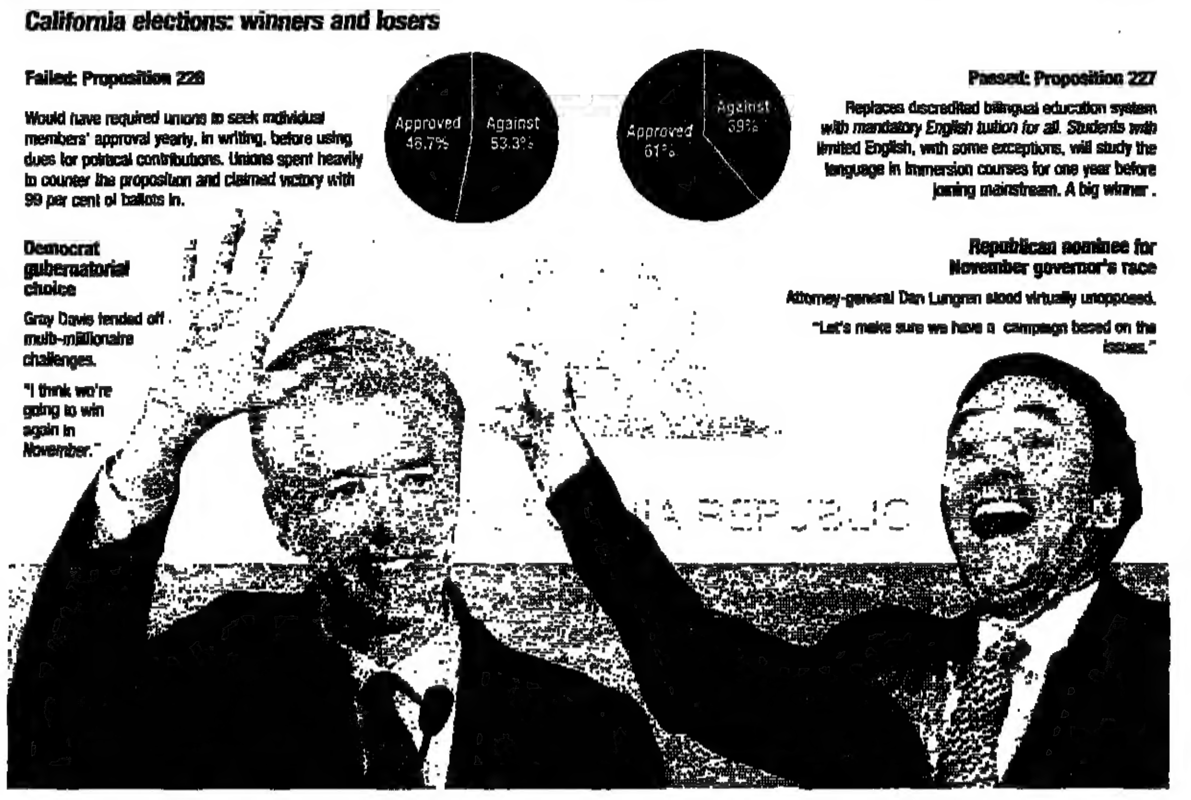
Failings of the existing bilingual teaching system, in place for almost 30 years, have been blamed for the high drop-out rate among immigrant – mainly Latino – high school students.

And just as the unions had failed to have everything their own way, so politicians of both parties saw the Democrat governor's vote as a blow to the claim that US politics had been hijacked by multi-millionaires with a taste for elective office.

Arianna Huffington, a leading conservative Republican whose husband spent $28m on an unsuccessful bid for a California Senate seat in 1994, said: "Al Checchi . . . demonstrates that it now takes $40m to lose a statewide race. You know, four year ago, it only cost $28m to lose. And to think Alan Greenspan keeps claiming there are no signs that inflation is recurring."

The biggest loser in Californian state voting spree never even had his name down on the ballot sheet

Governor Pete Wilson's ambition for a second shot at the presidential nomination received a big setback, says **Christopher Parkes**



The biggest loser in Tuesday's Californian voting was Governor Pete Wilson.

Although his name was not on the ballot sheet, his ambitions for a second shot at the Republican presidential nomination took a hit when Proposition 226 – which would have cut union contributions to the Democrats – went down in a storm of labour-funded advertising.

Mr Wilson had invested about $1m from his own campaigning reserves behind the ballot initiative, which would have obliged employers and unions to seek employees' permission annually to withhold pay or contribute union dues to political campaigns.

Although 226 built up an early lead, the unions threw an estimated $20m into the fray and were rewarded with a narrow victory.

Sherry Bebitch Jeffe, a leading political analyst, said passage of the proposition in the largest state in the nation would have given new life to the stalled Republican campaign to rein in "big labour's" national political influence.

Failure, she predicted, would cause the national effort to stall, and set back Mr Wilson's hopes of higher office.

The governor, claiming a moral victory for 226's backers despite having been outspent "10-to-one", claimed "paycheck protection" measures were being pursued in 30 states, and one setback would not affect the trend.

The future of 226 was the only big issue in doubt as polling opened, although its prospects dimmed as early returns suggested a strong turn-out by Democrats, drawn by the fierce three-way tussle for the gubernatorial candidacy in the November 3 general election.

According to exit polls, almost 50 per cent of Democrats said the governorship was their main reason for voting, while Proposition 226 provided the incentive for 22 per cent.

While the initiative's backers contemplated a future ballot attempt which would come too late for Mr Wilson, opponents of Proposition 227, which would scrap California's 30-year-old bilingual education system, said they were planning court action to try to overturn the heavy vote in favour.

Courts will be asked to test the constitutionality of a measure which will require schools, starting in September, to put students with limited English abilities into language immersion classes "not normally exceeding one year" before moving them on into English-only tuition.

The initiative followed 10 years of failed attempts by the legislature to agree on reform of a system which is widely accused of failing Spanish-speaking children in particular and condemning them to second-class careers because of their poor English.

Despite warnings from ethnic leaders and all corners of the political spectrum that the "one-size-fits-all" proposition was too inflexible, strong support among frustrated Latino voters helped ensure its passage.

Although there are about 1.4m Californian children assessed as having limited English skills, only 30 per cent currently study in bilingual classes, and the Latino student population suffers the highest high school drop-out rate in California.

For the rest of the US, California's struggles with assimilating immigrants from the south are seen as a test of the state's – and the country's – reputation as an ethnic melting pot with a single language as its most important ingredient.

According to some analysts, the main influence of 227 is more likely to be the way the emotional debate before the vote drew national attention to the plight of the growing underclass of people trapped in the *barrios*.

Ron Unz, the Silicon Valley software entrepreneur who sponsored the initiative, declared its passage "a victory against the political establishment and for the people of California".

Primary day's greatest victories for the political establishment came in the selection of the candidates seeking to succeed Mr Wilson. After one of the most volatile and most expensive campaigns on record, the electorate chose traditionalists from both the main parties' camps.

Gray Davis, the current lieutenant governor, who has laboured almost unseen in public service for 25 years, emerged at the end as easy winner of the Democrat nod.

Al Checchi, the tyro politician, and Jane Harman, a little-noticed congresswoman, despite early showings spent around $50m between them to no avail.

Dan Lungren, the state attorney general, and virtually unopposed for the Republican nomination, also had an easy ride. However, the introduction of the open primary obliged him to dig into his scant resources.

The electorate chose traditionalists from both the main parties' camps

As the electorate was allowed for the first time to vote for any primary candidate rather than according to the voter's individual party affiliation, Mr Lungren spent about $4m on television commercials to ensure Republicans knew who he was.

The campaign focus, noteworthy for the way the four leading candidates adopted centrist postures in the primary phase, is now likely to sharpen as the general election approaches. As Mr Lungren pointed out, Mr Davis had identified himself as a liberal Democrat and he was a conservative Republican. "Let's make sure we have a campaign based on the issues."

Brazilian sexologist throws challenge to old political order

Geoff Dyer reports on the feisty feminist Marta Suplicy, candidate of the leftwing Workers party in gubernatorial elections

Congressional clash: Marta Suplicy argues with another deputy during a debate in Congress on abortion

She is a candidate made for the media. Blonde and blue-eyed, she wears Chanel suits and comes from one of São Paulo's most respectable families. Before entering politics she made her living as a sexologist and shocked viewers of a television show she presented by discussing anal sex. Her husband is a senator, while one of her sons plays in a Nirvana-wanna-be rock band.

Marta Suplicy is also one of the most radical figures in Brazilian politics. A member of the lower house of Congress, she has made her name campaigning for controversial issues such as legalising abortion and permitting civil marriages between homosexuals, all in a combative, frank style.

Until recently her feisty brand of feminism would have put her on the margins of political life. But later this month Ms Suplicy will move centre-stage when she officially becomes the candidate of the leftwing Workers party (PT) for the governorship of the state of São Paulo, the most powerful in the country.

She is unlikely to make the second round of voting, let alone win the election. However, her elevation to the big league has opened up a new front in mainstream Brazilian politics, with an agenda of personal liberty, sexuality and women's issues. If the experiment is a success, Ms Suplicy, 53, could serve as an example for the left throughout Latin America.

"This is the start of a slow awakening of these types of issues," says Riordan Roett, professor of Latin American Studies at the Johns Hopkins School of Advanced International Studies in Washington DC.

'This is the start of a slow awakening of this type of issue'

Along with Noemi Sanin, the independent candidate who won 27 per cent of the vote in Colombia's presidential elections at the weekend, he argues that Ms Suplicy represents a new brand of politician in Latin America – well educated and well bred women who are prepared to take on the establishment.

For the PT, the strategy is obvious. The party has a loyal core of support among industrial workers and the public sector. However, apart from a few urban professionals it has been unable to make the middle-class converts it needs to broaden its base.

"One of the major reasons I was chosen as a candidate was that, in the early opinion polls, only a quarter of the people supporting me were traditional PT voters," Ms Suplicy says.

At a national level there is little space for her type of politics. But political analysts believe there could be a sizeable constituency in São Paulo and Rio de Janeiro, the country's most cosmopolitan cities.

Middle-class urbanites are being drawn to issues of personal freedom because of highly contradictory social attitudes in Brazil, where the reality rarely meets the rhetoric of tolerance. Unusually for a Latin country, Brazil revels in the image of confident, independent, sexually liberated women, yet both the Cabinet and the Supreme Court are all-male domains.

Only 34 of the 513 deputies in Congress are women, and many of them have been put there by their husbands, who run political machines in their home states.

And while conservative men do not think twice about putting on high heels and a low-cut cocktail dress during carnival week, gay groups claim one homosexual is murdered every three days in Brazil because of the level of hostility from police and public.

Abortion presents a further paradox. The 1940 penal code made abortion legal under certain circumstances, but the legislation to oblige public hospitals to conduct abortions has never been passed. The result is that abortion is only available to the middle-class women who can pay to go private.

Not everyone in the PT, however, agrees that Ms Suplicy represents the right new direction for the party. Some members, already suspicious of her privileged background, believe her personal liberty agenda and middle-class appeal will divert attention from the party's main issue, reducing poverty. Traditional PT voters might stay away, they believe.

So far Ms Suplicy has been careful to emphasise jobs, education and health over her more radical causes. However, she adds: "People realise that if someone is prepared to fight for homosexuals in Brazil, they are prepared to fight for anyone."

Given her support for abortion, religion could present another problem, not just because Brazil is a strongly Roman Catholic country but also because the PT has a strong Catholic element.

In a glimpse of the sort of dispute her campaign could provoke, Amaury Castanho, the conservative bishop of Jundiaí in the interior of the state, described her as "permissive" because of her views on sex education. She responded, in equally strident fashion, that he was "medieval".

After Ms Suplicy paid a visit to Dom Amaury he soon modified his tone.

Critics from the Catholic wing of the party have also been won over. Roque Zimmermann, a priest and PT deputy, was an early opponent of her candidacy. Now, he says: "As we approach the millennium, these type of subjects are a huge opportunity for the PT."

NEWS DIGEST

TRADE RELATIONS

Clinton vows to renew MFN status for China

President Bill Clinton yesterday announced his intention to renew China's Most Favoured Nation (MFN) trade status, allowing for continuation of normal trade relations between the US and China for a further year. Making the announcement at the White House ahead of a controversial trip to China later this month, Mr Clinton said not renewing MFN status "would be to sever our economic and to a large measure our strategic relationship with China."

Emphasising MFN status conferred no special privilege, he said exports to China had tripled in a decade and now supported more than 170,000 American jobs. Cutting ties would mean the US turning its back on a quarter of the world at a time when world co-operation over peace and security was important following nuclear tests in India and Pakistan.

Congress has 90 days to overturn his proposal, and Mr Clinton is likely to face a tougher fight over the issue than he has in recent years. This is because of allegations the Chinese military funnelled donations into the Democratic party's 1996 election campaign and over alleged leaks of sensitive satellite data to China. **Stephen Fidler, Washington**

DEKALB GENETICS

Monsanto offer hits obstacle

Plans by Monsanto, the St Louis-based "life sciences" group, to buy control of DeKalb Genetics, a leading agricultural genetics and hybrid seed corn company, have hit an obstacle with the US Department of Justice, which reviews US competition issues, asking for more information about the deal.

The request will extend the period during which the two companies are prohibited from closing the deal, although both said they would comply with the call as quickly as possible.

Monsanto already owns 40 per cent of DeKalb, and has board representation at the Illinois-based company. The two groups have also collaborated on the commercialisation of agricultural products which are genetically engineered to either resist insect damage or tolerate certain herbicides. The controlling Roberts family decided earlier this year to sell out of DeKalb, prompting a fierce auction. **Nikki Tait, Chicago**

IBM

Argentine warrants issued

An Argentine federal judge has signed international arrest warrants for four current or former International Business Machines officials sought for questioning in an alleged kickback scheme. IBM Argentina has been accused of paying bribes to win a $249m contract in 1994 to install computers at state-owned Banco Nacion, the country's largest bank.

The judge signed the warrants nearly a month after two former bank directors admitted having Swiss bank accounts containing cash they said they received for steering the contract to IBM Argentina.

IBM in the US reiterated that the four officials were willing to testify before the judge in the US under the terms of a bilateral US-Argentine treaty. "They currently have no plans to go to Argentina," it added. The company described allegations that the officials knew of alleged wrongdoing at its Argentine subsidiary as "unsubstantiated". **AP, Buenos Aires**

CENTRAL BANK ACTION

Colombian peso under siege

Speculation against the Colombian currency has intensified after Sunday's first round of the presidential election, prompting central bank action to restrict money supply and defend the peso. Local markets are concerned that Horacio Serpa, candidate of the governing Liberal party, could win office next month after his surprise narrow victory at the weekend. Most businesses favour Andres Pastrana, conservative candidate, who earlier had been expected to score a resounding victory.

The interest rate on overnight repurchase agreements or "repos" – used by the central bank to control money supply – was increased on Tuesday by 10 percentage points to 62.15 per cent, bringing the cumulative increase over the last 10 days to 32 percentage points.

On the same day the bank spent $18m buying pesos, bringing the total over the last ten days to $300m. The situation is unlikely to improve much before the second round of elections on June 21, an analyst said. **Adam Thomson and Richard Lapper, Bogotá**

WEALTH EFFECT

US rich increase savings

Wealthy Americans have responded to the surging stock market of the last few years by increasing their savings and setting up charitable foundations, not by increasing their expenditure on luxury goods, according to a survey published today by US Trust, the US private bank.

The findings, part of a survey which has been conducted annually for the last six years, suggest that rising equity prices have not had the so-called "wealth effect" – in which consumption rises on the back of higher assets prices – which had been predicted by some economists. This in turn may alleviate fears that the current US economy rests on a "bubble" created by inflated asset prices.

According to the US Trust, 67 per cent of the wealthiest Americans have left all or most of their gains in the market, mostly to ensure that they will have income in their retirement. Charities were the biggest single source of expenditure when people cashed in investments. **John Authers, New York**

TOBACCO SPONSORSHIP

Two-year Canadian reprieve

Canada will ban all tobacco sponsorship in five years, but is giving events such as motor racing and jazz concerts a reprieve from restrictions scheduled to take effect later this year. The Liberal government was yesterday expected to introduce legislation allowing all current tobacco sponsorship to continue for the next two years, with tighter restrictions starting in 2000 and a complete advertising ban in 2003.

The changes follow pressure from sporting, arts and cultural groups which draw at least C$60m (US$41m) annually from tobacco sponsorships. Under original legislation, tobacco advertising would have been curtailed from October. Imperial Tobacco, Canada's largest cigarette maker, had said it would cancel its C$50m in sponsorship. **Edward Alden, Toronto**

SARA LEE

Group donates $100m in art

Sara Lee, the Chicago-based food and consumer products company, yesterday announced it was donating about 40 works of art, worth about $100m, from its highly regarded art collection to 17 museums across the US. The largest single gift of about 12 works was donated to the local Chicago Art Institute. The company's collection focuses on impressionist paintings and sculptures. Several corporations in the US have sold private art collections recently, but Sara Lee claims that because of the tax deduction from the donation the financial benefits from a sale would not have been significantly greater. **Nikki Tait, Chicago**

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TECHNOLOGY TUNE-UP INDUSTRY PLANS NEW ROUND OF TESTS TO BUILD DEFENCES AGAINST INTERNET PIRACY

Bid to foil digital music pirates

By Alice Rawsthorn

The music industry is starting a second round of tests to select a technology to identify digital musical signals as part of its efforts to crack down on rising internet piracy.

The decision to start new tests, after none of the technologies submitted in last year's first round were deemed suitable, will delay the adoption of an industry-wide digital identification system by up to six months.

Paul Jessup, director of technology at the International Federation of the Phonographic Industry (IFPI), the industry body which is co-ordinating the tests, described the delay as unfortunate, but unavoidable. "If we don't get this right first time, the consequences will be dreadful," he said. "We felt a delay of four to six months was preferable to choosing a system which wasn't as good as it could be."

The delay highlights the difficulties faced by the music industry as it tries to prepare for an era in which music will increasingly be delivered directly to consumers on the internet or other digital networks.

It is already technically possible to distribute music on such networks, but record companies are wary of using them until legal and technical safeguards are put in place to prevent piracy.

In the meantime, there is a risk of the music industry being left behind if the popularity of digital systems outstrips its efforts to secure the necessary safeguards.

Unofficial estimates suggest there are already 1,800 pirate internet jukeboxes from which consumers can download illicit digital copies of albums and singles. There is also an emerging trend for musicians to release music over the internet. Some subsequently sign to record labels, but others choose to continue operating outside the music industry.

The adoption of an industry-wide system to identify digital musical signals is regarded as one of the most important technical safeguards. Such a system would use embedded signalling technology to enable companies to monitor any broadcasts of their music, and whether any royalties are owed to them.

Mr Jessup said none of the eight systems tested in the first round fulfilled the industry's requirements, and that since those tests other companies have claimed to have developed superior technology.

A dozen new systems were presented to the IFPI last week, and it is now starting to test them. Mr Jessup hopes to complete the tests by October, when the IFPI will present its recommendations to record companies.

Power equipment orders from SE Asia set to fall sharply

But the industry expects higher demand worldwide in the next few years to offset the region's downturn, reports Peter Marsh

Orders for electricity generator plants in some south-east Asian countries could fall more than 30 per cent over the next few years due to the region's financial problems, according to representatives of the world power equipment industry.

However, most industry executives expect the Asian downturn to be offset by higher orders in eastern Europe and south America, where there is strong demand for new electricity projects. They also see demand in south-east Asia picking up after about 2003 as the region emerges from the effects of the financial turmoil.

The world's $60bn a year generating equipment market is dominated by the "big six" suppliers – General Electric and Westinghouse of the US, Siemens of Germany, the Swiss-Swedish ABB, Anglo-French GEC-Alsthom and Mitsubishi Heavy Industries of Japan. GE, with "affiliate" companies which sell or make its equipment worldwide under licence or joint manufacturing deals, is the biggest player in the industry. Siemens aims to jump into number two position through its agreed $1.5bn takeover last year of the power generation business unit of Westinghouse. However, the deal still has to be cleared by US anti-trust authorities.

These six companies control an estimated 76 per cent of the "new-build" market for fossil and nuclear-fuelled power-station equipment, calculated according to energy output.

Because of expanding populations and previous high levels of economic growth, the Asia Pacific region is responsible for about half the industry's current workload, in terms of new power station projects. But the rate of growth in this part of the world is likely to fall considerably in the next few years because of the regional economic turmoil.

According to projections by Siemens, new orders in Asia Pacific are likely to drop by an average 1.1 per cent a year between the two five-year periods 1993-1997 and 1998-2002.

That is in contrast to the 2 per cent a year overall growth that Siemens is expecting worldwide.

Siemens predicts that Asia Pacific will between 1998 and 2002 account for 49 per cent of the world's new generator orders, worth a total of 98 gigawatts (GW) a year. That is down on the 51 per cent share this region enjoyed between 1993 and 1997.

According to projections by MarketLine, a London consultancy, orders for new gas turbine power plants in Japan, Thailand and South Korea will fall respectively by 30 per cent, 32 per cent and 50 per cent in the 1998-2002 period compared with 1993-97.

Gas turbines represent the fastest growing part of the overall electricity generating market.

The consultancy believes the figures are representative of the changes in these countries for electricity generation generally, which also include steam driven turbines where the energy is provided by coal, oil or nuclear.

Hagler Bailly, a US consultancy, has come up with similar figures for the predicted decline in orders in the Philippines, Malaysia and Indonesia. "There is a lot of uncertainty [about future generation orders in the region]. It's not a subject a lot of people want to talk about," said Jean-Louis Poirier, vice-president at Hagler Bailly.

"The direct effect of the Asia crisis will be to cut 7-8GW a year of orders out of the overall market for the industry, to bring the total to 80-90GW a year for the next few years," said Nick Salmon, head of the power generation division of GEC-Alsthom.

Even so, the industry believes the effects of the turmoil will be limited. Armin Meyer, president of ABB Power Generation, says that even in south-east Asia the crisis has hit only a relatively small number of countries, including Indonesia, Philippines, and Thailand. "Elsewhere, for instance in India and China, some very large projects are continuing to go ahead."

By around 2002-2003, any deferred big projects in the affected countries are likely to come back into planning, says Mr Meyer, because of the "the huge populations in this part of the world and the tremendous need for electricity which is difficult to put off for too long".

Because of strong demand in the US, Latin America, eastern Europe and Africa, ABB has not changed its internal estimates of the rate at which the world power generation market will increase in the next few years. These estimates stand at 3 per cent a year, the same as before the Asia crisis.

Bob Nardelli, head of the power division at GE, said one unexpected source of growth in the equipment market was the US, where for some years demand from utilities and new "independent" power producers had been muted because of uncertainties about the regulatory climate. "We are now encouraged by signs of extra investment in the US [by power producers] as they realise they are suffering from transmission bottlenecks and need to order equipment," he said.

Meanwhile in parts of south and central America, MarketLine forsees strong growth in gas turbine orders. In Brazil, Mexico and Venezuela growth in orders for gas turbines for the period 1998-2002, compared with 1993-97, is expected to be 705 per cent, 565 per cent, and 124 per cent respectively, says the consultancy.

Gas turbines: order volumes

Country	1993-97 GW	1998-2002 GW	% chg
Brazil	0.53	4.25	705
Mexico	0.37	2.46	565
Venezuela	0.93	2.10	124
Germany	3.32	5.78	74
US	19.81	28.55	46
UK	7.61	7.73	2
Japan	11.42	8.08	–30
Thailand	9.54	6.44	–32
S Korea	9.55	4.81	–50

Source: MarketLine

Boeing announces halt to MD-11 production

By Michael Skapinker, Aerospace Correspondent

Boeing of the US said yesterday it had failed to find new customers for the McDonnell Douglas MD-11 aircraft and would stop manufacturing it in 2000, with the potential loss of nearly 4,000 jobs.

The announcement marks the virtual end of civil aircraft developed by McDonnell Douglas, once one of the world's biggest aircraft makers. When Boeing acquired McDonnell Douglas last year, it announced the phasing out of the MD-80 and MD-90 twinjet programmes. The new 100-seat MD-95, now renamed the Boeing 717, will be the only McDonnell Douglas commercial aircraft in production after 2000.

Boeing had hoped to continue manufacturing the MD-11 as a freighter but said this was not feasible. Ron Woodard, president of Boeing's commercial aircraft division said: "Despite our best marketing efforts, it became clear to us that there simply was not enough customer interest in either the passenger or freight versions of this airplane to justify keeping the production line open."

Mr Woodard indicated that the outlook for the employees who make the aircraft was grim. Most of the 3,750 MD-11 workers are based at the former McDonnell Douglas factory at Long Beach, California. "We will be producing the airplane for another 18 months and we'll use that time to explore opportunities for alternative work. But ultimately we will have to lay off employees for whom we do not have work," Mr Woodard said.

He said this did not mean the Long Beach factory would close. The group is using it to do final work on Boeing 737s, relieving pressure on Boeing plants in Seattle, which have had difficulty meeting a steep increase in orders.

Boeing is also considering setting up production lines at Long Beach to make specialised versions of the 737. These could include the corporate jets which Boeing is making in collaboration with General Electric of the US. However, the principal hope for Long Beach is the 717. The first models are being built but the aircraft has so far attracted orders from only one airline. The carrier, AirTran Airlines, formerly ValuJet, has ordered 50 of the aircraft and has taken options on a further 50. Boeing will need to attract further orders if the aircraft is to be regarded as viable.

Boeing will unveil the 717 next week and expects to begin flight tests in the summer. The group said it had problems with the aircraft's engines, which are manufactured by Rolls-Royce of the UK and BMW of Germany. However, it expected these to be resolved by July, allowing the aircraft to go into service next year.

Efta, Canada to start talks on trade accord

By Tim Burt in Stockholm

The European Free Trade Association (Efta) said yesterday it would shortly begin formal negotiations on a free trade agreement with Canada, the first such deal between a pan-European trade body and a North American country.

The association – comprising Norway, Switzerland, Iceland and Liechtenstein – said the proposed deal would give companies based in the four countries the same access to Canada as rivals in the US, which already enjoy free trade links under the North American Free Trade Agreement (Nafta).

Officials described the talks, due to begin in Ottawa later this month, as the most significant step for Efta since the group signed a free trade alliance with the European Economic Area in 1994.

Last year, trade between Efta countries and Canada totalled $3.9bn.

Efta foreign ministers, meeting in Reykjavik, yesterday issued a joint statement saying: "The agreement would be the first free trade bridge across the Atlantic and, as such, a new dimension in Efta trade policy."

The move marks the latest step in Efta's campaign to forge alliances with third countries. The four member states, which account for $247bn or 3 per cent of world trade, have so far concluded 13 free trade agreements and seven co-operation deals with partners in eastern and central Europe, and the Mediterranean basin. Efta officials indicated that the association intended to step up such links with further talks with Cyprus, the Palestine Liberation Organisation – representing the Palestinian Authority – Lebanon and Jordan.

The strategy has been drawn up partly to ensure that companies based in member countries receive fair trade access, particularly if the European Union seeks preferential trade agreements for its members.

As part of that drive, the ministers meeting in the Icelandic capital said that joint committee meetings would take place later this month with the Czech Republic and Slovak Republic, likely to be followed by contacts with the Macedonian government.

UN studies secret data on Iraq arms

By Michael Littlejohns at the UN in New York

The head of the United Nations commission charged with eliminating Iraq's biological, chemical and missile programmes yesterday briefed the Security Council on how much more has to be done by Baghdad before he can declare compliance with UN demands and recommend ending sanctions.

Richard Butler, a former ambassador of Australia, went into the closed-door session armed with photographs taken by a U-2 high-altitude reconnaissance aircraft that conducts regular flights over Iraq, and other classified data assembled by inspectors from his commission, known as Unscom. A principal aim was to convince members impatient over the slow progress of *arms inspections, especially* Russia and France, that President Saddam Hussein was still playing cat and mouse with the UN.

A principal aim was to convince members Saddam was still playing cat and mouse

It was not the first time the council had studied U-2 pictures of Iraq. But these and other highly sensitive *documents and data posed* some risk for the UN because detailed intelligence information could be of immense value to Baghdad, enabling the circumvention of weapons inspections.

On the other hand, a convincing case by Mr Butler could persuade sceptical members that Unscom's policy was the only correct one.

In a bid to pre-empt his *appearance. Mohamed al-Sahaf, Iraqi foreign minister,* who has spent several days in New York for talks with sympathetic delegates, had a private meeting with council members during which he was said to have insisted that Baghdad had made "four final and complete disclosures" to Unscom and called for the lifting of the eight-year sanctions regime.

Sir John Weston, UK delegate, said he was unimpressed by the Iraqi presentation, which he termed a cynical exercise in obfuscation and an attempt to put Unscom in the dock. Bill Richardson, US delegate, said the Iraqis failed to back their arguments with documentation and were "not *convincing.*"

But Yuri Fedotov, the Russian representative, insisted that Mr al-Sahaf had provided technical data that were "of relevance". The British delegate rejected the idea of a split in the council's ranks, noting that members had "at least a dozen times" expressed themselves unanimously on the Iraqi question and it was important to continue that solidarity.

What seemed likely to emerge from yesterday's exercise was what has been *dubbed a "road map" that* Mr Butler may take to Baghdad, setting out what still needs to be done to ensure compliance.

He is due in the Iraqi capital next Thursday for his first visit since March, which came shortly after Kofi *Annan, UN secretary* general, averted the threat of US military action through an agreement with Mr Saddam, which permitted inspections of "sensitive sites" that Iraq had placed off-limits.

The International Atomic Energy Agency believes that any potential Iraqi nuclear threat has been eliminated and that in this area inspections could be superseded by *long-term surveillance.*

Drive to keep Euro-Med talks alive

By Roula Khalaf in London

The European Union began talks yesterday with 12 Mediterranean partners in an effort to revive the Euro-*Mediterranean initiative* and avoid its contamination by the stalled Middle East peace process.

The two-day informal foreign ministers' meeting in Palermo to discuss trade and investment co-operation has been structured to avoid turning the affair into a forum for venting frustrations with the collapse of the peace process.

Political issues were to be concentrated last night in a single session and no formal statement is expected to emerge from the meeting.

The Euro-Med initiative *started with the 1995 Barce*lona conference and is aimed at promoting political and security dialogue and economic co-operation to create a non-agricultural free trade area by 2010. But it has gradually become a victim of the failing peace process. Arabs and *Israelis* have refused to sit together on some meetings and the last formal foreign ministers' meeting in Malta last year was overshadowed by attempts to revive the peace process.

Officials were yesterday hoping that the absence of both Yassir Arafat, the Pal*estinian leader*, and Benjamin Netanyahu, Israeli prime minister, would help keep the agenda focused on economic co-operation.

"We want to underline that Barcelona is alive, that it continues, and that we're making progress in many areas, such as financial co-operation," said an EU official. "Whether this will work or not is another matter, but it is in nobody's interest to torpedo Barcelona." But the Palermo *meeting comes* at time of Arab frustration with Israeli policies and consultation among Arab lead*ers on holding* a summit to co-ordinate a response to Israel's refusal to honour its peace commitments.

It also comes at a time of increasingly outspoken EU criticism of Israel, accusing it of hindering regional economic integration.

Specifically, the EU has warned Israel that it will prevent imports from Gaza and the West Bank under a "Made in Israel" label from benefiting from trade privileges under the trade accord because such goods are not Israeli. So far, Morocco, Tunisia, Israel, the Palestinian Authority and Jordan have signed association agreements with the EU but some of these countries have expressed disappointment with the slow pace of implementation and its apparent limited benefits in attracting foreign direct investment. *The agreement* with Egypt, meanwhile, has been held up by a dispute over access to agricultural produce.

Kabila battles to purge demons

Changing banknotes and reshuffling ministers may not be enough to solve the Congo's problems, an **FT Correspondent** reports

Laurent Kabila: accused of running the peace on a war footing

Members of Laurent Kabila's entourage are beginning to regret his promise, made soon after *proclaiming himself president* of the Democratic Republic of the Congo last year, that the country would live up to its new name and hold multiparty elections by April 1999.

Amid the euphoria that surrounded his takeover in *May last year, and the departure* of Mobutu Sese Seko, one of Africa's longest serving tyrants, it seemed to them a reasonable timescale within which to legitimise Mr Kabila's rule at the ballot box.

Elections seem less appeal*ing to his followers now.* The name of Zaire may have been wiped off the map, but its reputation as a rogue state is still strong and its hinterland as inaccessible. Its new leader is seen as autocratic and the population almost as estranged from government as it was under Mr Mobutu's corrupt rule.

Even relations with the regional leaders who helped Mr Kabila to power have soured following the resurgence of cross-border rebel activity in the east and the apparent inability of the Congolese army to contain insurgency.

"What we need now is a *government which acts, not* speaks. We need to choose three development priorities for each province and forget the rest," says a presidential *adviser who played a role* last year in drawing up the \$4.5bn national recovery plan. He, like others, is now troubled by the prospect of raising funds for even modest improvements in a climate of donor hostility and investor nervousness.

Perhaps with this in mind, Mr Kabila reshuffled his cabinet earlier this week, bringing in 13 new ministers and juggling factions of his uneasy alliance. Observers say the changes were more remarkable for the outgoing ministers – five of whom are *being detained on allega*tions of corruption – than those coming in.

"There were certain practices that were going on which bore a strong resemblance to the old habits of the Mobutu days," a presidential aide acknowledges. "This is meant as a strong signal that they must stop."

The apparent end to immunity for senior ranking officials has been welcomed by a population accustomed to the excesses of the ruling élite going unpunished and alert to signs that the disease had crept back into the heart of the new administration.

But it has also underlined *worries about the over*whelming power of the security services and reinforced doubts about the competence and accountability of the regime.

The tendency has been to make problems disappear by putting their authors behind bars. Since there are so many problems, the jails are overflowing with perceived trouble-makers lucky to get a hearing at a military tribu*nal after six months.* A common complaint is that Mr Kabila, after more than 30 years as a minor guerrilla leader, is running the peace on a war footing.

Widespread repression, a ban on party politics which Mr Kabila intends to lift *only months before putative* elections, and the obstruction of a United Nations investigation into Rwandan refugee massacres have made it difficult for donors to justify propping up a regime with the development aid it desperately needs.

Six months after a Friends of Congo donor conference, the World Bank has struggled to raise even a quarter of the money promised for a trust fund towards government recovery plans. The IMF has threatened to suspend Congo should it refuse to honour by June 29 loans built up by the Mobutu regime.

But if Mr Kabila has turned his back on the world which he accuses of funding the former regime long after *financial irregularities* were known, he has not persuaded it he is on higher moral ground.

Even mining companies, which thronged to Kinshasa *last year in the hope of get*ting a share of one of the world's last unexploited mineral storehouses, are adopting a wait-and-see approach.

They have been frustrated by cash demands, an inadequate judicial code to protect investments, and confusing layers of official negotiations. Local investors, dogged by punitive taxes, are also waiting to see whether a remarkable year of exchange rate stability and low inflation achieved by a newly rigorous central bank will survive the promised launch of a new currency, the Congolese franc, on June 30. They also await *results of commercial bank*ing sector reforms which would renew prospects of loans.

Diplomats have started wondering what alternatives are lurking on the margins – as Mr Kabila once did – that might be capable of halting the country's decline. They *also ponder how the govern*ment will organise elections when a population census, seen as a vital precursor to a poll, is far from ready.

The scale of the problem was illustrated recently by a local journalist who discovered, in a forgotten corner of the capital, an old man who refused to believe Mr Mobutu had been deposed and buried.

The president's entourage may well wonder whether two years is enough for Mr Kabila to stamp his authority on the mass of jungle and isolated bush that was Zaire. Removing Mr Mobutu's face from the banknotes and shaking up the cabinet may *not be enough.*

Ethiopia, Eritrea in artillery battle

By Michela Wrong

The simmering border dispute between Ethiopia and Eritrea exploded into all-out warfare yesterday, as troops on either side of the contested frontier fired shells and mortar bombs at their former battlefield allies.

Dashing hopes of a negotiated solution to the month-long *crisis in the* Horn of Africa, eyewitnesses reported that a full-scale artillery battle began at dawn at Zalambessa, a town at the heart of the triangle of territory being claimed by both countries.

Ethiopia immediately *accused* Eritrea *of starting* the battle, saying its former northern province was trying to "hoodwink" the international community. Eritrea responded by accusing Addis Ababa of planning an armed invasion.

"This attack represents a *new and dangerous* escalation of the crisis," said the Eritrean Foreign Ministry.

"Unfortunately the Ethiopian government persists in its intransigent position of launching a full-scale war unless Eritrea 'withdraws unconditionally' from terri*tories that are indisputably* Eritrean."

Eritrea, which won independence in 1993, played a significant role in helping Ethiopia's guerrilla movement oust Mengistu Haile Mariam, the former Marxist dictator. Both countries appeared to enjoy warm ties until May 6, when a long-standing row over a still undefined mutual fron*tier turned* violent.

Appalled by the prospect of two of its closest African allies going to war, the US has spent the last month trying to avert a full-scale confrontation, with Susan Rice, the assistant secretary of state for Africa, shuttling between the two capitals. With efforts showing few results, Rwanda has recently become involved in diplo*matic efforts.*

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TRAVEL AGENCY WESTDEUTSCHE LANDESBANK SUBSIDIARY MOVES TO OFFSET INCOME TO BE LOST THROUGH CIRCULATION OF EUROS

Thomas Cook diversifies into property

By Jean Eaglesham in London

Thomas Cook, one of the UK's oldest and biggest travel agents, is to become an estate agent for overseas properties.

The agency, owned by Germany's Westdeutsche Landesbank, claimed it was the first UK travel company to offer the service.

The agency will use Thomas Cook's 385 UK travel shops, supported by a dedicated London-based showroom team. It will sell properties graded four star and above, built by big developers such as Banner Homes and John Mowlem in selected resorts in mainland Europe and Florida.

Potential buyers will be offered financial and mortgage advice by FPD Savills, the finance arm of the Savills estate agency. Thomas Cook will also sell a number of linked ancillary services, including house buildings and contents insurance.

The move into estate agency is a spin-off from the venture into timeshare holidays that Thomas Cook announced last week. Andrew Chapman, who will head both divisions, said they were a logical extension of the core holiday business. "People buy a package holiday for one or two weeks, a timeshare is for one or two weeks but for x years, and the same developers that offer timeshare offer freehold properties," he said.

The new businesses are part of a diversification strategy designed to replace foreign exchange income likely to be lost when euro notes and coins are introduced in 2002. The travel agent claims to be the UK's biggest supplier of leisure consumer foreign exchange, with more than 20 per cent of the £13bn ($21bn) market. It has admitted that the euro will have a big impact on this business.

The estate agency business is being launched at a time of growing demand in the UK for overseas properties. Abbey National, one of the few UK domestic mortgage lenders to offer a specialised service for buyers of property in mainland Europe, said: "We have seen a big increase in business since the start of the year, particularly in France and southern Spain."

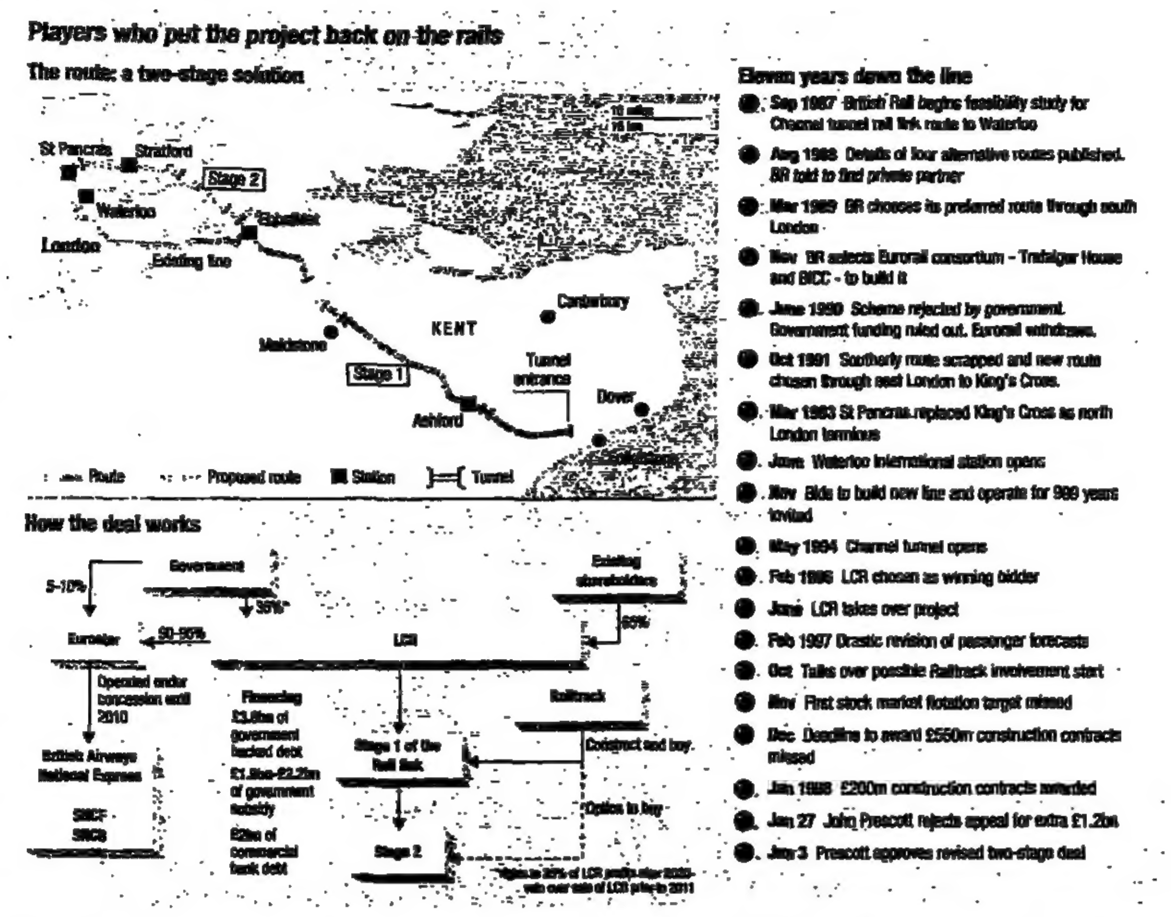
The strength of the pound is one of the factors behind this increase. Mark Chilton, managing director of FPD Savills, said: "Despite the recent softening in sterling, exchange rates against most major European currencies are still around 20 per cent higher than two years ago [which] makes an overseas property a very attractive option for UK-based buyers".

Abbey National said there were also socio-economic factors behind the trend, including an increase in the numbers of people taking early retirement.

CHANNEL TUNNEL ROUTE DEPUTY PREMIER UNVEILS RESCUE PACKAGE 'FROM THE ASHES OF LCR'S COLLAPSE'

Rapid rail link to France is given go-ahead

By Charles Batchelor, Jonathan Ford and George Parker



The UK government yesterday gave the go-ahead for the construction of a £5.8bn ($9.5bn) high-speed rail link from London to the Channel tunnel between England and France.

The 110km line will be built in two stages but should be completed by 2007, John Prescott, deputy prime minister and chief transport minister, told the House of Commons.

This decision means that the Eurostar trains between London, Paris and Brussels will be able to travel at speeds of up to 225kph through south-east England and, when both stages are complete, will cut 35 minutes off journey times.

It brings to an end four months of uncertainty after Mr Prescott rejected an application from London & Continental Railways, the private sector promoter, for an additional £1.2bn of support on top of the £1.8bn earlier agreed.

"This is an agreement snatched from the ashes of LCR's collapse," Mr Prescott said. "We have delivered an exciting and imaginative package that is good news for people travelling to and from mainland Europe."

LCR is to raise finance for the project, which will be managed by Railtrack, the privatised owner of the UK rail infrastructure. Railtrack will commit itself to taking over Stage One between the tunnel and a point just outside the London suburbs for £1.5bn. It will also have an option to buy Stage Two, through east London into St Pancras station, for an expected £1.8bn.

The government's additional contribution has been reduced to between £140m and £360m – lower than recent suggestions that an extra £700m was needed – and will not be paid until 2010, Mr Prescott said.

The Treasury has agreed a "one-off arrangement" to provide government backing for £3.8bn of debt and bonds which will be issued by LCR to finance the project. In return, the government will receive 35 per cent of LCR's pre-tax profit after 2020 and a 5-10 per cent stake in Eurostar. A further £2bn of commercial debt will be raised.

The length of the LCR concession will be cut from 999 years to 90, which will mean the link will revert to government ownership in 2086 – the same year as the tunnel.

The Eurostar trains will be taken over by a consortium comprising the National Express coach group, British Airways and French and Belgian national railways. BA plans to launch a direct train service between Heathrow airport and mainland Europe, said Robert Ayling, British Airways chief executive.

Virgin, the unsuccessful bidder for the Eurostar business, said it would challenge the deal with the competition authorities in Brussels. Mr Prescott insisted that LCR had a contractual obligation to build both stages of the link but municipal authorities in Kent and east London expressed fears that the second stage might not be completed.

Matthew Taylor, transport spokesman for the opposition Liberal Democrat party, said the agreement did not secure a guarantee that the second stage would be completed. The announcement coincided with Railtrack's 1997-98 results, which showed pre-tax profits up 12 per cent to £388m on turnover which was 1 per cent higher at £2.47bn. Railtrack's shares rose 41p to a new high for the year of £13.10.

Lex, Page 14
Railtrack results, Page 20

Lloyd's ready to admit captive insurers

By Christopher Adams, Insurance Correspondent

The Lloyd's of London insurance market is poised to admit captive insurance subsidiaries of multinational companies, in a move that would deal a blow to other captive domiciles such as Bermuda, Gibraltar and the Isle of Man.

Max Taylor, chairman of Lloyd's, will outline the market's plans at a conference in Luxembourg today. Lloyd's wants to begin accepting captives – set up to look after a parent company's insurance needs – by 1999. It has written to 40 of the world's biggest companies in the UK and US seeking their views on a draft regulatory regime.

The move follows approaches from several companies seeking to establish a captive at Lloyd's, the main advantage of which is Lloyd's ability to write business around the world. By setting up at the market, companies avoid "fronting" costs in countries where their captives are not able to write insurance.

Lloyd's, which has traditionally dealt through insurance brokers and not directly with corporate customers, is examining ways in which it could exploit alternative risk transfer techniques such as captives in an effort to bring more business to the market.

It believes captives would generate reinsurance business for underwriters and allow costs to be shared. But the proposals will be controversial. Capital providers may baulk at the idea because captives write a relatively narrow range of business yet have significant liabilities. If one failed, it could pose a great strain on Lloyd's central fund, a pool of money which meets claims in the last resort.

The market would require captives to hold funds at Lloyd's representing at least 50 per cent of gross written premiums and demand parental guarantees to meet additional liabilities.

Multinationals have complex insurance needs and it can be cheaper to retain a degree of risk and manage it in-house than buy cover from the insurance market. Captives in some offshore centres have also benefited from generous fiscal regimes.

There are nearly 4,000 captive vehicles worldwide, accounting for some £12bn ($19.7bn) of premiums, and numbers are increasing. But the tax advantages in setting one up offshore have been eroded recently, according to actuarial consultant Tillinghast Towers Perrin.

Soc Gen to launch 'share dating' in London

By Emiko Terazono in London

Société Générale, the French investment bank, is to launch an electronic stock matching system in London for institutional investors trading in UK shares.

The system, which will be able to handle big block and programme trades anonymously, will offer institutional investors an alternative to the London Stock Exchange's Sets, which has been criticised by brokers and investors since it was introduced more than six months ago. Critics complain of a lack of liquidity and of erratic pricing.

Société Générale will introduce the system, already used under the name Posit by institutional investors in the US, later this year. The French bank has teamed up with Investment Technology Group, the developer of Posit.

Posit matches electronically large blocks of buy and sell orders entered by fund managers. It will match the orders twice a day – once in the morning and once in the afternoon – at the mid point of the prevailing market price at that time. It has the advantage of handling transactions without affecting market prices.

Sets handles only 30 per cent of trades in FTSE 100 companies, measured by value, with the rest traded through marketmakers. Posit will be able to offer liquidity to fund managers, especially those tracking the index looking to trade a large number of shares.

"It's like a dating agency to swap shares and makes trading much more efficient," says Rob Barrett, fund manager at State Street Global Advisors. In the US, it handles about 20m shares daily, or about 2 per cent of the overall volume traded.

ITG says that its system will use prices based on that of the London Stock Exchange and will not be a direct competitor. It will also act as an agent broker for its clients and will apply for membership with the exchange.

Nominations close for N Ireland assembly

By John Murray Brown in Dublin

Nominations for candidates in the June 25 elections for the new Northern Ireland assembly closed yesterday with the pro-British Ulster Unionist party running 48 candidates and contesting each of the 18 six-member districts.

Sinn Féin, the political wing of the Irish Republican Army, and the moderate nationalist Social Democratic and Labour party are running 38 each – again in every district. But both parties are unlikely to secure the 14 per cent quota required to win a seat in some of them. The hardline Democratic Unionists, who boycotted the peace talks, are fielding 34 candidates.

Much is at stake with party strengths in the assembly determining who wins seats in the new power-sharing executive and who is appointed to the council that will oversee the proposed north-south bodies, which the agreement envisages will forge co-operation with the Republic of Ireland.

Using last year's general election result, Sydney Elliott, politics lecturer at Belfast's Queen's University, estimates the Ulster Unionists will emerge with 39 seats, the SDLP 24, Sinn Féin 16, the Democratic Unionists 16, Alliance nine, and the Progressive Unionists and UK Unionists two each.

That result would give Gerry Adams, president of Sinn Féin, an automatic place on the 10-member executive – an awkward prospect because the UUP has said it will not sit with Sinn Féin in government ibf there is no movement from the IRA on weapons decommissioning.

With the UUP expected to be the biggest party in the assembly, David Trimble, the party leader, is likely to become chief executive of the new administration.

Mr Trimble said the people of Northern Ireland at last had the opportunity to govern themselves and he appealed to them to grasp it.

NEWS DIGEST

NUCLEAR WASTE

Scots plant says 'missing' uranium never existed

The troubled Dounreay nuclear complex in Scotland was trying yesterday to explain why a large quantity of highly enriched uranium which it admits is unaccounted for never existed. The loss of an estimated 170kg of uranium was recorded in 1969. It was thought to have occurred over 3½ years between 1965 and 1968. The information on the material unaccounted for emerged in a published inventory of the contents of a shaft at Dounreay into which waste material was dumped in the 1960s and 1970s. Anti-Dounreay campaigners claimed the loss could be explained by the material having been transferred to the UK's nuclear weapons programme. But John McEwan, chief executive of the UK Atomic Energy Authority, said the disappearance of the material was simply due to a miscalculation. In the House of Commons, Tony Blair accused Alex Salmond, leader of the Scottish National party, of being "irresponsible and extreme" to alarm the public with allegations about the plant.

"As for allegations about the supposedly missing highly-enriched uranium, this allegation is actually based on a misinterpretation of 30-year-old records which are far from complete by modern standards." **James Buxton, Edinburgh**

THE ECONOMY

Sterling slows services' growth

The strength of sterling is beginning to slow the growth of the UK's service sector, according to a report yesterday. But services continued to expand rapidly in May, the monthly survey of 600 purchasing managers by the Chartered Institute of Purchasing and Supply showed. "The rise in business activity during May reflected the continued strong growth in the amount of new business," the institute said. Buoyant domestic demand and increased spending on marketing boosted business in the companies surveyed. One in four companies reported a higher level of business last month than in April. The slight slowdown will be examined by members of the monetary policy committee of the Bank of England, the UK central bank, which today announces its latest decision on interest rates. **Richard Adams and Andrew Bolger, London**

JOB SECURITY

Survey reports decrease

Job security has decreased over the past three years in a third of UK companies, according to the Confederation of British Industry, the employers' lobby. Initial results from a CBI survey of employment trends in 5,000 organisations also found working patterns are becoming more flexible, with 41 per cent of companies using more contract staff, 47 per cent more temporary staff and 38 per cent more flexible hours. Adair Turner, director-general of the CBI, said: "Flexible labour markets are the right policy response to the unemployment of the nineties and we need to spread that message to other countries across Europe. But the benefits of those flexible labour markets could be undermined by workforce insecurity, both through individual demotivation and through the political reaction that increased flexibility can provoke."

Reacting to the CBI survey, John Monks, general secretary of the Trades Union Congress, said too many people suffered from insecurity in their working lives. "This is due to too little investment in training and education and too much reliance on hire-and-fire," he said. **Andrew Bolger, London**

CIVIL SERVICE

Treasury chief to quit

Andrew Turnbull, head of the Department for the Environment, Transport and the Regions is to become permanent secretary (top official) of the Treasury, the government machine's most powerful department, at the end of the month. He will replace Sir Terry Burns, whose departure brings to an end his uneasy relationship with Gordon Brown, the chancellor of the exchequer. Sir Terry joined the Treasury as chief economic adviser in 1980 and become its permanent secretary in 1991. Nigel Lawson, the former Conservative chancellor, admired Sir Terry's work at the London Business School in the 1970s and persuaded Sir Geoffrey Howe, then chancellor, to bring him in as the department's economic guru.

"The appointment proved a great success, tarnished only by his failures in the forecasting area in the late 1980s and early 1990s – the very area, ironically, where he had originally made his academic reputation," Lord Lawson said in his autobiography five years ago. **Robert Chote, London**

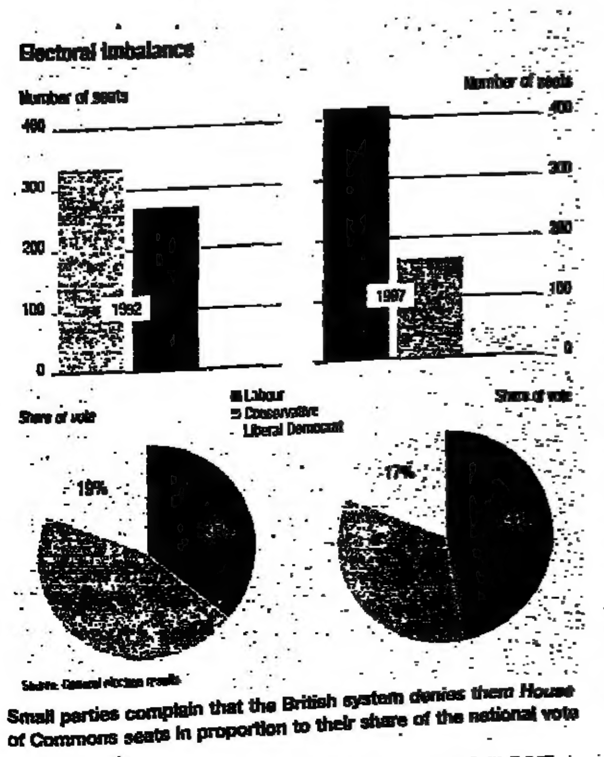
BSE INQUIRY

Mystery of epidemic threat

It is impossible to determine how many people might contract the human version of "mad cow disease", an epidemiologist told the BSE Inquiry in London yesterday. He said the size of the epidemic could range from dozens to thousands. Simon Cousens, of the London School of Hygiene and Tropical Medicine, said this was because the incubation period of the disease – new variant Creutzfeldt-Jakob disease – might be 30 years, or even more. The first victims of the disease appeared in 1995 but could have been infected 10 or more years earlier. So far 25 people have died of the disease. Another scientist said in a written statement that changes to the government veterinary service might make it much harder to recognise and investigate BSE now. Dr Martin Jeffrey, who worked at the Central Veterinary Laboratory at the time the disease was identified in 1986, said: "It is possible that were BSE to occur in 1998 instead of in 1986 we may not have been able to detect it quite so readily."

He blamed the "business ethos that is now used to run our science". **Maggie Urry, London**

Campaigning intensifies before the poll of polling systems



Small parties complain that the British system denies them House of Commons seats in proportion to their share of the national vote

Liam Halligan reports on the question of which alternative should be offered to the public in a referendum on electoral reform

After the question of Britain's entry into the single European currency, the biggest decision facing the Labour government is arguably electoral reform. But while the politics of Emu easily grab the public's attention, manoeuvrings over proportional representation are little noticed.

Any shift from the present first-past-the-post (FPTP) system could have a greater impact on the political system than the other strands of the government's constitutional reform programme put together. Under FPTP, the candidate with the most votes in each district wins its House of Commons seat.

The arcane debate over which variant of PR should be pitched against existing arrangements in a referendum is intensifying. The commission on electoral reform led by Lord Jenkins – who, as Roy Jenkins, has served as a Labour cabinet minister and president of the European Commission – is to report by October.

Most members of the opposition Conservative party agree with Michael Ancram, their new deputy chairman, who calls the Jenkins commission "a rigged body, with a rigged remit, designed to produce a rigged voting system to keep Labour in power at all costs".

John Major, former Conservative prime minister, joined the attack on reform by suggesting that PR increases the likelihood of coalition government. "Coalitions, by definition are unstable and uncertain – effective decision-making is a first-past-the-post process, with clear winners and losers," he told MPs.

Both the Blair government and Mr Major's Conservative administration of 1992 took power even though they polled less than half of the votes cast nationally in a general election.

The Conservatives suspect that the only reason Tony Blair is flirting with PR is the likelihood that it will increase the number of House of Commons seats held by Labour – and certainly by the Liberal Democrats – at the expense of Conservatives, keeping them out of office for a generation.

But, despite this advantage, Mr Blair remains famously "unpersuaded" of the merits of PR. One reason is the strength of feeling against change among his own MPs – who have formed "Keep the Link", a 80-strong anti-PR campaign group.

"Old" Labour's fears of change rest on concerns about the possibility of extremists being elected.

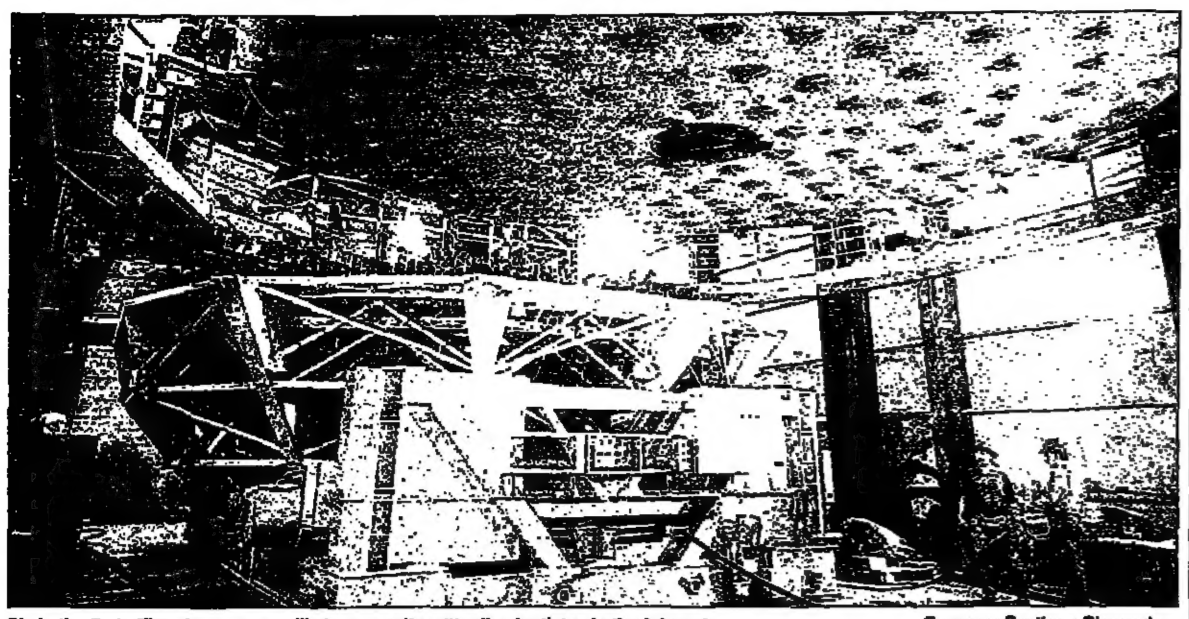
Keep the Link also argues that reform should extend no further than the Australian-style alternative vote (AV) – which ranks candidates, with lower preferences transferring until a majority-backed choice emerges – on the grounds that it retains close relations between MPs and voters.

Mr Blair's office has tacitly backed the group – allowing junior government members to join – to the anger of Liberal Democrats. They insist that AV is not "broadly proportional", goes only part-way towards full PR and breaks the Jenkins commission's rules. If AV had operated in the 1997 general election, there would now be at least 90 Liberal Democrat MPs instead of the present 46, and just over 100 Conservatives compared with the present 165. That is because Liberal Democrat candidates came a close second in many districts.

But Labour insists AV remains a possibility. Jack Straw, the home secretary, asserts it fits the Jenkins remit. He also points out that the commission's verdict will be subject to "cabinet consideration". Friends of Lord Jenkins, now a Liberal Democrat, say he would not accept AV – leading to a dilemma for Mr Blair. The widely-tipped compromise option is "AV-plus" – which elects MPs in both districts and on party lists – on a 50:50 or 75:25 basis. One criticism of this system is that it dilutes the direct link between MPs and voters.

But Mr Straw's recent statement to MPs, that changes could be in place before the next general election, points to AV – because AV-plus requires boundary changes unlikely to be achieveable before 2002.

Were AV to be used, Mr Blair could reassure Lord Jenkins it was a stop-gap, with the possibility of adding party lists in a second Labour term.



Sky's the limit: The observatory will share results with all scientists via the internet — European Southern Observatory

TECHNOLOGY VERY LARGE TELESCOPE

A 14bn light year outlook

The VLT brings a twinkle to a European astronomer's eye, says **Imogen Mark**

The European Southern Observatory (ESO), a European scientific consortium, has successfully tested the first of four linked telescopes that will form the VLT (Very Large Telescope), the world's biggest and most advanced earth-based telescope.

The new telescope has been built at Paranal, in the heart of the Atacama desert in northern Chile, where the dry atmosphere and stable climate helps guarantee *clear skies for 350 nights of* the year. When the full system is operating, by about 2001, the VLT will be able to observe objects 14bn light years away.

It will double or treble the capacity of the present generation of earth-based telescopes, *and allow scientists* to study the universe close to its beginning, only 1bn years after the Big Bang.

Announcing the first test which is when the telescope produces the first astronomically useful images – on May 28, ESO said that "performance meets or surpasses the design goals, in particular as concerns the achievable image quality. Exposures lasting up to 10 minutes confirm that the tracking is very accurate *and stable.*"

For the first time in almost a century, it says proudly, "European astronomers will have at their disposal the best optical/infrared telescope in the world."

The VLT consists of four identical 8.2m-diameter telescopes with a collective diameter equivalent to 16m. *Each unit is only 17cms* thick but weighs 20 tonnes and is held by 150 movable supports. Much, however, will depend on the success of the ESO scientists and engineers in minimising the distorting effects of the earth's atmosphere on the images they can receive.

At the La Silla observatory further south they have developed "adaptive optics", a technique for correcting the distortions by means of a super-rapid image analyser, *which measures and then* sends corrective messages to a small mirror, which bends to correct the image. Together with the VLT's large surface, the ESO says, the results will be images almost as clear as those from Nasa's Hubble telescope.

The observatory expects hundreds of requests from astronomers to use the facilities. *It will share results of* observations with all scientists via the internet.

Not to be upstaged, however, Nasa's Origins Programme in Washington, which works with the Hubble telescope, announced on the same day ESO released the news and images that Nasa astronomers had observed what they believed may be a "possible planet" outside the solar system.

● This year a $50m upgrade, funded in conjunc*tion with the Origins Pro*gram, was announced for Hawaii's W.M. Keck Observatory, *writes Bruce Dorminey*. The upgrade will add four 1.8m telescopes to the twin 10m telescopes at the observatory on Mauna Kea, an extinct volcano.

IT INTERVIEW GAVIN HOWE

Standard bearer for the internet

The chief executive of Reed Elsevier's Technology Group talks to **Richard Poynder**

Howe: 'We are not completely hung up on the web . . . it can be a pretty poor delivery medium'

In his smart suit and tidy office Gavin Howe does not look the archetypal "techie". Nor is he.

Mr Howe began his working life as a journalist. After *buying his first computer* in 1977, however, he caught the technology bug. Soon he was publishing Computer Weekly. Shortly afterwards he became managing director of Reed's computer publishing group.

Now 43, Howe's career changed direction again last September, when he was appointed chief executive of Reed Elsevier Technology Group – a unit created to spearhead the company's electronic publishing plans.

Mr Howe's formidable task is to re-engineer the entire Reed Elsevier publishing operation, readying it for the age of the internet.

"The company," he states baldly, "faces huge structural changes." Reed Elsevier has 25,000 employees, 1,200 scientific journals, hundreds of business journals and magazines around the world – including the Butterworths and Tolley titles – as well as many business and travel directories.

So how does a leading print publisher prepare for the networked future? Mr Howe says: "We are not completely hung up on the web. If you take our position as a provider of high value infor*mation to professionals, then* the web can be a pretty poor delivery medium."

Mr Howe has in mind the superior performance of Lexis-Nexis, the proprietary online service acquired by Reed Elsevier in 1994. But surely traditional online services are yesterday's technology?

"Lexis-Nexis is criticised for being an old-fashioned service," concedes Mr Howe, "but the fact is that it can offer much more rapid and *efficient access to information* than anything yet available on the internet."

Nevertheless, the creation of RETG underlines Reed Elsevier's appreciation of the need to re-invent itself in response to the internet challenge. Headquartered in Massachusetts, RETG now employs 100 staff. Mr Howe is keen to point out that it is not a central IT support unit. "We are not a web factory: our role is to assist the businesses to build their own development teams, rather than doing all the work for them. So when a new project begins two or three people from a *business unit will be* seconded to RETG to assist in development."

Consequently RETG is strongly focused on educa*ting other parts of the group* about the new technologies, and "evangelising". The aim is for the business units to acquire the expertise themselves, so ironically, if RETG is successful, it will make itself redundant.

So why have a centralised function at all? Firstly, to create technology standards.

"Instead of the company spending many hundreds – or thousands – of man years arguing about technology platforms, we provide a discipline for everyone to work within. By having a standard we reduce *the debate,*" says Mr Howe.

RETG's second primary role is to be a central learning hub. When part of the *company acquires some new* technological expertise RETG disseminates it around the whole organisation. "So we learn how to do something once only, and then apply that learning six times around the company," explains Mr Howe.

'Our role is to assist the businesses to build their own teams'

Whatever the internet's limitations, Mr Howe does not doubt its long-term importance. He is excited *about the company's forth*coming web-based products. Elsevier Science, for instance, is making the full text of all its journals available over the web through a service called ScienceDirect, while Reed Business Information is developing web sites around electronic versions of print publications.

By bolting content from Lexis-Nexis on to the back of the web services, Reed Elsevier believes it can offer a unique combination of strong brand and content *from a vertical print publica*tion, plus depth and breadth from Lexis-Nexis.

Eventually the entire Lexis-Nexis service – a 20-year archive of more than 1bn documents – will become available over the web.

US subscribers to a new web-based legal service called LIS Xchange have access to around 99 per cent of the Lexis-Nexis archive. In April a similar service for businesses was launched in the US – with European versions due for release in the near future.

In the short-term, however, Mr Howe believes the best opportunities lie not with the internet itself but with the networking and software tools spawned by it. These are enabling publish*ers to deliver web-based* information directly into high-speed networks, bypassing the internet's creaking infrastructure.

Already 20 per cent of Reed Elsevier's revenues come from electronic products. "Over the next three years we're looking to move that up to 30 per cent," says Mr Howe.

But he does not expect print to disappear and insists the big changes under way represent more a quiet revolution than a bloody coup.

This approach should give the business units time to acquire the necessary expertise themselves.

TECHNOLOGY WORTH WATCHING

Filter to refine crude oil in development

US researchers are developing a filter that can refine and purify crude oil. After further research, it might eventually take on some of the processing currently performed by petroleum refineries, according to its developers at the University of Southern California.

The filter is made by heating a mixture of two metals to a very high temperature and spraying them through a nozzle to make a powder. The powder coats an inert which is then packed into a hollow glass cylinder.

When crude oil passes through the filter, it "cracks" *about one-fifth of the heaviest* components, upgrading them into lighter components. The filter was also able to remove as much as 60 per cent of the sulphur in crude oil.

The so-called "intermetallic" filter would have certain advantages over refineries, since it does not require high temperatures and pressures to operate. *The device is being* developed with funding from Klinair Environmental Technologies of Dublin in Ireland.

University of Southern California: US, tel 2137404750; e-mail: calverle@usc.edu

Modified peas to weed out weevils

A breed of genetically-modified peas almost totally resistant to weevils has been developed. Normally, weevils can reduce pea yields by 25-30 per cent.

Scientists at CSIRO, the Australian research institute, introduced a gene found in kidney beans, which are naturally resistant to weevils, into the peas. The gene produces a protein that blocks the normal digestion of the seeds by weevil larvae. Otherwise, the genetically modified peas are identical to conventional peas in every way.

The researchers intend to apply the same method to *similar crops such as* chickpeas and mungbeans.

The introduction of modified peas could potentially stop growers from having to apply chemical insecticides.

Weevils are a particular threat for subsistence farmers who often need to store crops under poor conditions. They *are a widespread problem in* Asia, the Indian subcontinent, Africa and South America.

CSIRO: Australia, tel 262766478; http://www.csiro.au/news/

Air conditioning cooler than CFCs

Daimler-Benz is considering using carbon dioxide as a refrigerant in car air conditioners, in an effort to *improve their environmental* performance.

Even though the fluorochlorohydrocarbons currently used in refrigerants *are much less environmentally* damaging than the CFCs that preceded them, there is still room for improvement.

Daimler-Benz believes that switching to carbon dioxide would reduce the air conditioners' overall contribution to the greenhouse effect by one-third. It notes, however, that running an air conditioner requires engine power to operate, resulting in extra exhaust emissions.

Carbon dioxide has not previously been thought suitable for air conditioners because it requires high pressure to operate, presenting an additional hazard. However, the researchers believe that modern materials can contain the cooler safely and compactly.

Daimler-Benz: Germany, tel 7111793039; fax 7111794365.

Quick and cheap test for cancer

Researchers at Johns Hopkins University in the US are developing a quick and inexpensive test for cancer that might eventually be used to screen patients who have a potentially high risk of developing the disease.

The test is based on allopurinol, a drug normally used to treat gout. It works by temporarily slowing down the *production of DNA in cancer* cells, with the result that some DNA components accumulate in the blood. When they are excreted in urine, they indicate the presence of cancer.

The technique, which is at an early stage of development, has been tested on a small group of patients with a variety of tumours. Further studies are now planned on larger groups of patients.

Johns Hopkins: US, tel 4109558725; e-mail mpurdy@welchlink.welch.jhu.edu

Vanessa Houlder

هكذا من الاصل

CINEMA AN AWARD-WINNING FILM FROM IRAN

To be, or not to be . . .

Nigel Andrews admires a suicide mission about the meaning of life

Abbas Kiarostami's *Taste Of Cherry*, which won the Palme d'Or last year at Cannes, is like an inspired prank played on the road movie. There is no "road" in the sense of a developed surface going from A to B: the car-driver hero just winds and rewinds, mesmerically, around the hilltop dirt tracks above Teheran. And there is no "movie," if that suggests to you a purposive, logical drama travelling likewise from A to B.

This Iranian film travels more from alpha to omega – from all our beginings to all our ends – via select points in the existential alphabet. "Mr Badii" (Homayoun Ershadi) is looking for a man who will help his suicide project. For a generous reward, to be collected on mission's completion, the helper will either throw earth over Badii in his self-dug hillside grave or, if the planned sleeping pills have not worked, help him out of it to a new life.

This must be done at 6am the next day. So on this day – the film's day – the doleful death-seeker drives around the dusty hills interviewing candidates. He chats up a garbage-sifter. He takes a nervous soldier on a long drive. He is rebuffed by a young man studying to be a priest. He finally meets a garrulous old museum worker, who agrees to help only after waxing on about life's redemptive wonders and how even the firmest death wish can be defeated by birdsong, a sunrise or "the taste of cherry."

This film is so simple it is miraculous. As in *Close-Up* and *Through The Olive Trees*, Kiarostami records natural sights and sounds as if he and we are hearing them for the first time. We almost are. Unlike Hollywood movies, where even in mid-desert people speak designer dialogue in a dubbing-studio acoustic, and where birdsong and breezes are so synthesised they become *the sonic equivalent* of supermarket yoghurt, *Taste Of Cherry* has the vivid strangeness of the real and accidental.

Sometimes the dialogue is drowned out completely. In one scene you cup your ears when characters speak against a storm of earth-moving machines. But this scene also shows that *nothing* with Kiarostami is really accidental. To the hero seeking his 20 humble "shovelfuls of dirt" these shots of pouring, cataracting earth are like the sight of water to a thirst-maddened man. Like much of the movie, this sequence in love with annihilation is at once dreadfully funny and poignantly poetic.

The main actor's face alone would compel unbroken attention. Sad, exophthalmic eyes; sallow, beaky features: he looks like a vulture queuing up for his own death. He knows the arguments against suicide, that it is a sin and that man must wait for God Himself to act. But though we never learn the roots of his despair we never question its depth and reality.

The simpler *Taste Of Cherry* becomes in style and narrative, the deeper it sinks its emotional and spiritual tap-roots. There is a haunting exactness even to the order of the hero's "pick-ups". First the man of action (soldier) cannot help him, then the man of faith (religious student). Finally it is the mangy old scholar, the man of knowledge, whose wisdom extends so far that it allows for despair even while speaking up for hope.

Like Kiarostami in his fashion – who wrongfoots us all with an ending in which 90 minutes of reality are exposed as a kind of divine imposture – this natural history boffin is also a taxidermist. Faith, art and wisdom, in the final reckoning, are all about stiffening the lawless emptiness of life with the precious, speculative artifices of hope, structure and meaning.

*

In *Red Corner*, a thriller of almost radiant inanity, Richard Gere plays a lawyer visiting Beijing to negotiate an American company's "first ever" joint satellite deal with the Chinese. Will this mean that the People's Republic no longer has a defence against rubbish like this beaming down from space? No wonder they put Gere in jail.

The pretext is that he murdered the goodtime girl found dead in his hotel room. But we know better. We know that he passed out after too much drink, sex and pidgin-Chinese pillow talk, and that the blood on his Armani shirt must have been smeared there by persons conspiratorial. Gere, though framed, abused and roughed up in prison, sets out to defend himself by the tenets of Chinese law.

The star himself, we know, is a prominent Tibetan lobbyist who will stop at nothing to shake a fist at the communist Chinese. Unfortunately "nothing" just about sums up *Red Corner*: a lavishly shot *reductio ad absurdum* of Perry Mason-style courtroom drama, insipid romance (with Bai Ling as a beautiful defence counsel) and tourist-Chinese colour, most of it reproduced on a Hollywood backlot. Everyone ends up ranting and railing in court just as in a bad American movie, with Madam Judge looking as powerless as any veteran guest star dragged in to conduct a typical Tinseltown trial.

The Wedding Singer was a surprise hit in America and has an odd, defiant charm. The young star is Adam Sandler who resembles a gentrified Bob Dylan and speaks, and sometimes sings, in a husky hormonal monotone. At times his acting is the human equivalent of muzak, but we still like him. Also he can go mad at short notice, launching – for instance – into a heavy-rock spoof to cut to comical tatters one of the wedding parties where he is hired to croon.

The movie is pastel-hued with a pink bias, as if filmed through candy floss. And the comical-romantic plots, which converge on Drew Barrymore as a waitress with dreams, are as flimsily formulaic as a committee of scriptwriters seeking a "light touch" could make them. But charm is an indescribable, un-prescribable thing, and is present here.

Charm tries to be present in *Hurricane Streets*, which won so many prizes at the Sundance Film Festival – including Audience Award and Best Director (Morgan J. Freeman) – that it clattered out of Utah like a wedding car. But this tale of lovable New York teens bonding, buddying and living on the law's edge is far too anxious to please, like a *Stand By Me* transferred to the naked city. Of the cast only the egregiously named Brendan Sexton III, playing the gentle pack-leader at bay from acne and Ecstasy, looks as if he could and should be in better things.

No need to hasten to either *The Replacement Killers* (Antoine Fuqua) or *Nowhere* (Gregg Araki). The first stars Hong Kong action icon Chow Yun-Fat in a US imitation of a bad HK thriller: overheated visuals, undercooked plot. The second is a long psychedelic love-'n'-drugs fantasia, a party without end or mercy from the once-promising Gregg Araki (*The Living End, The Doomed Generation*). Set in a subculture LA strafed by colour filters, the plotless movie features music from Massive Attack, the Chemical Brothers and other bands with Death Row names and, here, a similarly terminal effect on the morale.

TASTE OF CHERRY
Abbas Kiarostami

RED CORNER
Jon Avnet

THE WEDDING SINGER
Frank Coraci

HURRICANE STREETS
Morgan J. Freeman

So simple it's miraculous: Homayon Ershadi as Mr Baddi in 'Taste of Cherry'

Set alight with a touch of madness

THEATRE

ALASTAIR MACAULAY

Twelfth Night
The Young Vic, London SE1

Not a single line feels familiar in the new Young Vic production of *Twelfth Night*. Everything feels new, but also true. This most affectingly bittersweet of Shakespeare's comedies becomes utterly organic, natural, beguiling.

In one of the scenes I love best in world drama, Sir Toby and Sir Andrew and Feste have been wassailing at midnight; Maria tries to hush them; and then Malvolio arrives. "My masters, are you mad?" Malvolio here is Robert Bowman in a beautifully fresh and uncaricatured interpretation of the classic role, and he speaks to them with merest reason. He is not Malvolio the traditional sourpuss and acid censor; he is simply all sense, restraint, classical proportion. Yes, they *are* mad. *Their behaviour*, we well know, has been utter daftness. We actually feel sorry for Malvolio, that he has no such madness in his heart.

This is wonderful. More so is the fact that, when next we see Malvolio, he discloses his own grain of madness: his vain ambition to marry his employer Olivia and to condescend grandly to her household. Here Bowman shows us Malvolio the closet sensualist. One hand lightly touches his cheek and almost licks it amid his fantasy; the other hand now and then flicks in lordly authority. But the *fantasy* is private. Malvolio in this scene is, as ever, *absurd, yet Bowman also makes* him intimate, even delectable.

The director is Tim Supple, and the production is a sequel to his 1996-97 production of *The Comedy of Errors*, the most beautifully revelatory British production of any Shakespeare play in the past three years. Touches of madness made that *Comedy of Errors* start to resemble Hitchcock's *Vertigo*, of all unlikely things and to marvellous effect; and here they light up the whole of *Twelfth Night*.

It is, in most cases, the madness of Eros. In her first soliloquy, Olivia (Sarah C. Cameron) wrestles briefly with her sudden attraction to Cesario, and then abandons herself to this craziness: "Well, let it be."

At every point, we feel the rational/irrational beating of the human heart. Christopher Saul is a Sir Toby of uncommon intelligence, Andy *Williams* is an unusually hearty Sir Andrew, and Dan Milne is a Feste who can suddenly quiet the revelry with singing of tender melancholy and can then build intoxicating music and romps. Sandy McDade is a sober, even severe Maria, whom love and fun always take by surprise. Likewise, Leo Wringer is a most temperate Orsino in whom love discloses a voluptuary. Melly Still's simple, elegant designs help to make the Cesario/Sebastian resemblance unusually persuasive. Supple allows the tempo to drop too much in the play's second half, and there are *still* a couple of mildly jarring moments when some actors show too much contrivance. But one wants him to proceed swiftly to almost every other Shakespeare comedy.

I have not yet mentioned either the worst or the best features of this most fresh and refreshing production. The worst, in two or three cases, is diction. The Young Vic is not a large theatre, and Sarah C. Cameron has been acting there and for Tim Supple for over two years. Yet she still fails to project several of her lines with adequate vocal support. Even Thusitha Jayasundera – a Viola who brings an exceptionally low, handsome, and melodious voice to make her disguise as Cesario all the more convincingly seductive – *sometimes* lets her otherwise lovely elocution drop into inaudibility.

The supreme virtue of the production is Adrian Lee's music, *which conjures up a soundworld* – poised somewhere between India and the eastern Mediterranean – of magic and mystery. Orsino's music really does have "a dying fall".

Even the three tiny notes with which Feste decorates the play's last line of song ("and we'll strive to please you every day") are perfect. Like so much here, they seem to grow naturally out of the play's fabric. I would return to hear them again – just as I would to watch Sir Andrew linger and behold, in a wordless, motionless pang of hushed jealousy, the *lovelorn warmth with which Olivia* greets her beloved Cesario. The matchless ensemble of this production is a lesson to all London theatre.

Alastair Muir

Nitin Chandra Ganatra as Sebastian and Thusitha Jayasundera's Viola disguised as Cesario in Tim Supple's splendid new production

OPERA IN NEW YORK

Rarities on the fringe

William Weaver reviews Salieri and Smetana

The Brooklyn Academy of Music, with its enlightened policy of importing interesting foreign productions, has earned the warm gratitude of New Yorkers over the past few years; and the recent visit of the Società dell'Opera Buffa from Milan will add to the debt audiences here owe to the rejuvenated institution. For a handful of performances, the two-year-old Italian troupe presented a worthwhile rarity, the *Falstaff* of Antonio Salieri, first performed in Vienna in 1799.

The received opinion of Salieri seems to be that he was a skilled composer but not a genius. Well, perhaps not: but the music of *Falstaff* is more than just agreeable, and there are moments when the comedy takes on a darker hue, and the music probes below the attractive surface. Sensitively paced by the young conductor *Alberto Veronesi*, the equally youthful Orchestra Guido Cantelli was able to convey all the charm and elegance of the score.

Unfortunately, the staging by Beni Montresor, the company's founder-director, seemed at odds with the sense of the piece. Montresor designed pretty costumes, and a plain cube of a basic set, but then proceeded to make the actors perform in an incessant, jarring frenzy. Bardolf (the bass Filippo Bettoschi) and Pistol (the mime Gaddo Bagnoli) were never allowed to remain still for a *moment*.

From the Overture, Montresor made his intentions clear: he was not going to count on the efficacy of the music. During the introduction a line of male mimes came mincing absurdly across the stage; then, throughout the opera, mimes were available for more would-be humour, none of it original or particularly funny.

Like the conductor, most of the cast were making their American debuts. Insofar as the staging permitted, they made a favourable impression, especially the men: the tenor Luca Dordolo was an appealing Ford, and the baritone *Fernando Luis Ciuffo* showed a feeling for words, though the voice itself sounded murky. The Falstaff, Romano Franceschetto, was likeable, and did not try to dominate the performance. The voice is a bit light, but – like the others – it was perfectly suited to Brooklyn's Majestic Theater, the Academy's smaller house.

This valuable revival of Salieri's 'Falstaff' suggests he was a composer of considerable charm

Now that most people have accepted that – despite Pushkin and Rimsky – Salieri did not murder Mozart, it would be timely also to forget the simplistic characterisation given him by Peter Shaffer in *Amadeus*. When we have the opportunity, we should be able to hear and judge Salieri's music on its own terms. And, with all its flaws, this valuable revival of his *Falstaff* suggests he was a composer of considerable charm.

In the same week that brought *Falstaff* to Brooklyn, the New York opera audience was offered another rarity, Smetana's *Two Widows*, in a student production at the Manhattan School of Music. The Bohemian composer's comedy is ideal for a young cast, and the experienced conductor Steven Crawford gauged the fresh voices shrewdly, allowing them both to emerge as individuals and to blend in a totally engaging, coherent performance.

The rousing polkas were brightly choreographed by Francis Petrelle, and between the dances the director Jay Lesenger *permitted the players to move* naturally, curbing any tendency to exaggerate the surprise-widened eyes, the pouting grimaces, *the physical jokes that are all too* often employed in operatic comedy. In Smetana there is always a wistful, reflective strain, and amid all the fun the participants in this lovely production bore in mind the essential humanity of the characters.

There was a double cast: in the final performance, two attractive sopranos, Lynette Pfund and Georgia Jarman, were paired in the title roles, while Aaron *Binder revealed an appealingly* sweet, almost Irish tenor in the part of the successful suitor. A second tenor, Steven Mello, was engaging in the smaller part of Tonik. The success of the production proved once again that you can stage an opera without stars, provided you have artists.

INTERNATIONAL

Arts Guide

AMSTERDAM

EXHIBITION
Rijksmuseum
Tel: 31-20-673 2121
The Secret Unlocked: German Furniture Opened. Nine pieces dating from the end of the 16th to the end of the 18th century, chosen from the museum's collection of cabinets, and opened to reveal secret compartments and hidden drawers. *Includes four* pieces by the cabinetmakers Abraham and David Roentgen; to Aug 30

OPERA
Netherlands Opera, Het Muziektheater
Tel: 31-20-551 8911
Siegfried: by Wagner. New production conducted by Hartmut Haenchen in a staging by Pierre Audi; Jun 5, 9

BERLIN

CONCERTS
Konzerthaus
Tel: 49-30-203090
● Berlin Symphony Orchestra: conducted by Wassilij Sinaiskij in works by Stravinsky and Tchaikovsky; Jun 4, 5, 6
● Deutsches Symphonie-Orchester Berlin: conducted by Vladimir Ashkenazy in a programme of works by Mozart. *With flute soloist* Martin-Ulrich Senn and harpist Nina Schlemm; Jun 8

Philharmonie
Tel: 49-30-2548 8354
● Berlin Philharmonic Orchestra: conducted by Lorin Maazel in works by Maazel and Mahler. With cello soloist Rostropovich; Jun 5
● Berlin Philharmonic Orchestra: conducted by Lorin Maazel in works by Strauss and Wagner; Jun 9, 10

DANCE
Deutsche Oper
Tel: 49-30-34384-01
La Sylphide: revival of a production designed by David Walker and directed by Peter Schaufuss, after August Bournonville; Jun 6

OPERA
Deutsche Oper
Tel: 49-30-34384-01
Manon: by Massenet. *New* production conducted by Jiří Kout in a staging by Cesare Lievi. With sets by Margherita Palli and costumes by Luigi Perego; Jun 7

CHICAGO

CONCERTS
Orchestra Hall
Tel: 1-312-294-3000
www.chicagosymphony.org
Chicago Symphony Orchestra: conducted in works by Beethoven by Daniel Barenboim, who also performs Piano Concertos Nos. 1 and 4. With soprano Jane Eaglen; Jun 4

FLORENCE

OPERA
Maggio Musicale Fiorentino
Tel: 39-55-211158
www.maggiofiorentino.com
Wozzeck: by Berg. New production by William Friedkin, conducted by Zubin Mehta; Teatro Comunale; Jun 5, 8

GLYNDEBOURNE

OPERA
Glyndebourne Festival Opera
Tel: 44-1273-815 000
● Così Fan Tutte: by Mozart. New production by Graham Vick, conducted by Andrew Davis. Cast includes Alan Opie and Barbara Frittoli. With the London Philharmonic Orchestra; Jun 4, 6, 9
● Katya Kabanova: by Janáček. Revival of *Nikolaus Lehnhoff's* production, conducted by Yakov Kreizberg, with designs by Tobias Hoheisel. Cast includes Amanda Roocroft. *With the London* Philharmonic Orchestra; Jun 5, 7

HELSINKI

OPERA
Finnish National Opera
Tel: 358-9-4030 2211
● *Siegfried*: by Wagner. Conductor Leif Segerstam, director Götz Friedrich and designer Gottfried Pilz continue their collaboration on the Ring with this new production. The title role is sung by Stig Andersen; Jun 5, 8
● The Magic Flute: by Mozart. New production by Swedish director Etienne Glaser, designed by Peter Tillberg; Jun 10

LONDON

CONCERTS
Barbican Hall
Tel: 44-171-638 8891
London Symphony Orchestra: conducted by André Previn in works by Copland, Barber and Gershwin; Jun 7

Royal Festival Hall
Tel: 44-171-960 4242
Philharmonia Orchestra: conducted by Valery Gergiev in works by Mussorgsky and Stravinsky; Jun 7

Wigmore Hall
Tel: 44-171-935 2141
● Barbara Bonney: recital by the soprano of works by Brahms, Previn, Schoenberg and Mahler. Accompanied by Malcolm Martineau; Jun 6
● Catherine Malfitano: recital by the soprano of works by Bolcom, Poulenc and Gershwin. Accompanied by Robert Tweeten; Jun 8
● Nash Ensemble: Michael Berkeley 50th Birthday Concert, conducted by Martyn Brabbins, with *mezzo soprano Jean Rigby*. Programme includes works by Berkeley, Brahms and Mozart; Jun 9

EXHIBITIONS
Royal Academy of Arts
Tel: 44-171-300 8000
Summer Exhibition: held every year since the Academy's foundation in 1768, the world's largest open exhibition displays work by established painters and sculptors alongside that of younger and less well known artists; to Aug 16

Tate Gallery
Tel: 44-171-887 8900
Lucian Freud: *Some New* Paintings. More than 20 recent works, many of them completed during the last year and never before publicly exhibited in Britain. Includes characteristic, large-scale studio nudes, and portraits of the artist's daughters; to Jul 26

OPERA
Barbican Theatre
Tel: 44-171-638 8891
L'Orfeo: by Monteverdi. American choreographer Trisha Brown makes her debut as an opera director with this production, which is designed by Roland *Aeschlimann and conducted by* René Jacobs; Jun 4, 5, 6

English National Opera, London *Coliseum*
Tel: 44-171-632 8300
● Carmen: David Ritch and John La Bouchardière direct a revival of Jonathan *Miller's production*, conducted by Noel Davies. The title role is sung by Sally *Burgess*; Jun 5
● *Manon*: by Massenet. New production by David McVicar, designed by Tanya McCallin. Rosa Mannion sings the title role and the *conductor is Paul Daniel*; Jun 4, 6, 10

MANCHESTER

OPERA
Palace Theatre
Tel: 44-161-242 2503
Opera North: Joan of Arc, by Verdi. *New production* by Philip Prowse, *conducted* by Richard Farnes; Jun 10

MILAN

OPERA
Teatro alla Scala
Tel: 39-2-88791
www.lascala.milano.it
Manon Lescaut: by Puccini. Production by Liliana Cavani conducted by Riccardo Muti; Jun 5, 8, 10

MUNICH

CONCERTS
Philharmonie Gasteig
Tel: 49-89-5481 8181
Munich Philharmonic Orchestra: in chamber music by Barrière, Haydn, Boccherini, Dragonetti, Rossini, Weber and Mozart; Jun 7

NEW YORK

EXHIBITION
Metropolitan Museum of Art
Tel: 1-212-879 5500
www.metmuseum.org
Sir Edward Burne-Jones: first American exhibition devoted to the 19th-century British artist, *comprising more than 200 works*; from Jun 4 to Sep 6

PARIS

CONCERT
Salle Pleyel
Tel: 33-1-4561 6589
Orchestre de Paris: conducted by Sylvain Cambreling in works by Boulez and Messiaen. With soprano Françoise Pollet; Jun 4

Théâtre des Champs Elysées
Tel: 33-1-4952 5050
Orchestre des Champs-Elysées: conducted by Philippe Herreweghe *in works by Berlioz and Schumann*. With mezzo-soprano Brigitte Balleys; Jun 5

WASHINGTON

CONCERTS
Kennedy Center
Tel: 1-202-467 4600
National Symphony Orchestra: conducted by Leonard Slatkin in Mahler's Symphony No. 3. With mezzo-soprano Wendy White; Concert Hall; Jun 4, 5, 6

TV AND RADIO

● **WORLD SERVICE**
BBC World Service radio for Europe can be received in western Europe on medium wave 648 kHZ (463m)

EUROPEAN CABLE AND SATELLITE BUSINESS TV
● ***CNN International***
Monday to Friday, GMT:
06.30: *Moneyline with Lou Dobbs*
13.30: *Business Asia*
19.30: *World Business Today*
22.00: *World Business Today Update*

● ***Business/Market Reports:***
05:07; 06:07; 07:07; 08:20; 09:20; 10:20; 11:20; 11:32; 12:20; 13:20; 14:20.

At 08:20 Tanya Beckett of FTTV reports live from LIFFE as the London market opens.

PETER MARTIN

Revolution again

Services are triumphing over manufacturing in the same way that manufacturing overcame agriculture in 1851

By the year 2010, says Percy Barnevik, only 10 per cent of the US economy will be in manufacturing. The rest will be in services.

If this prediction from Europe's most influential businessman is true, 2010 will be the moment at which the service economy will fully come into its own. As a historical turning point, it will stand alongside 1851, the year of the Great Exhibition in London's Crystal Palace, which marked the symbolic triumph of manufacturing over agriculture.

Since 1851, much of our way of thinking has assumed the primacy of manufacturing. Economic statistics, the corporate pecking order, the structure of international economic relations – all emphasise the industries that supply goods. Services have been treated as a special case.

Take the case of trade. When the General Agreement on Tariffs and Trade was set up in 1948, it was aimed at easing the cross-border flow of goods. It was only in 1993 that a General Agreement on Trade in Services, Gats, was added.

Even that still leaves services a long way behind: the Gats is essentially a framework, to be filled in later. The first across-the-board negotiations to start the detailed work of freeing trade in services are not due to start till 2000.

By then, the most service-oriented modern economies such as the US and parts of Europe will be well on the way to the shift in economic clout that Mr Barnevik's prediction suggests. What would it be like to live and work in a world in which services are not only dominant but seen to be so?

Economic statistics would change, for a start. MTBH (mean time between haircuts) would replace industrial production as the barometer of economic activity. Capacity utilisation would be a much less helpful guide to potential inflation: the capacity of any service operation, whether a fast-food restaurant or a management consultancy, is more elastic than a factory.

But an economy in which service industries exercised greater political clout would also run by different rules. This became clear at a meeting in Brussels earlier this week at which the European Commission listened to the views of service industry bosses on what Europe's negotiating priorities should be for the 2000 Gats talks.

A surprisingly small part of the business wishlist dealt with the question of market access – that is, the right to export services to country X or Y, the ostensible subject of Gats 2000. The issues business people stressed were subtler, more wide-ranging – and a lot harder to capture in international trade negotiations:

● People. Services usually have to be delivered by a person. This means that service businesses have a quite different agenda of immigration issues compared with companies that sell goods. In so far as manufacturers care about immigration policy, they are interested in access to permanent pools of labour (cheap or specially skilled). Service businesses want the ability to send their people in and out, for varying periods of time, without having to prove special qualifications. Immigration laws do a poor job of dealing with this sort of situation.

● Professional recognition. Many services, particularly the more valuable ones, can only be provided by people who have obtained local qualifications. Sometimes these are not even consistent within a country – as in the US market for legal services. Although the very largest service companies may gain a competitive advantage from their ability to master the recognition labyrinth, medium-sized ones find it an almost insuperable barrier to cross-border activity. Persuading governments and professional bodies to recognise other countries' qualifications – in practice, not just in theory – is a laborious task, still a long way from completion even within the European Union. Getting it implemented around the world is likely to take decades.

● Competitive structure. Many services have historically been provided by state monopolies, in such areas as electricity, postal services or telecommunications. Even where these have been privatised, there is often a legacy of dominant suppliers, restrictions on foreign ownership, and immature regulation. Trade policy's normal weapon – a promise to treat foreign competitors on the same basis as local ones – is of limited value, since *all* entrants are at a substantial disadvantage. Really free trade in services is likely to require further steps towards a global competition policy regime, something few governments will relish.

Those service businesses that are lightly regulated – such as tourism or computer services – tend to confine their requests to a few general points (eg, on people) and otherwise ask mainly to be left alone. Those that have a long legacy of state control – such as telecommunications or air transport – believe that true global competition requires huge efforts to disentangle the cat's cradle of laws, regulations and treaties that currently enmesh them.

Service businesses' share of gross national product will grow rapidly whether or not this effort is undertaken. Percy Barnevik's prediction will come true anyway. But let's hope policymakers take these issues seriously, and start coming to terms with a world driven by services, not manufacturing. Without that shift of approach, 2010 will be even more disconcerting than 1851 must have been.

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Considering the options

Nikki Tait on how the US futures industry is reacting to the introduction of electronic daytime trading in other financial centres

Hue and cry: Chicago Board of Trade continues to use open outcry

Changes are coming thick and fast to the futures industry. Last week, the London International Financial Futures and Options Exchange accelerated plans for the introduction of electronic daytime trading. In Paris, the Matif exchange went a step further, saying it would ditch the traditional "open outcry" trading system in favour of screen-based transactions with effect from this week. In Australia, the Sydney Futures Exchange is already making a similar, if more measured, switch.

So where does this leave Chicago, birthplace of the US futures industry and home to the Chicago Board of Trade as well as the Chicago Mercantile Exchange? Locked in debate for a start. These exchanges, the largest and third largest in the industry respectively, continue to trade predominantly via the "open outcry" method, where traders physically signal buy and sell orders across trading pits. Cheaper electronic trading systems are used only for after-hours business.

"The pace of change is dominating discussion in the exchange community in Chicago," says Arthur Hahn, senior partner at the Katten, Muchin & Zavis law firm and a former director of the Futures Industry Association. "Events have shown us that things are changing far more quickly than we expected," says Scott Gordon, CME chairman.

While the Chicago exchanges are considering how to protect their business, plenty of voices caution that the dynamics in the US may prove different from those in Europe. No one doubts that growing use will be made of electronic trading on both sides of the Atlantic, or that cost pressures on US exchanges will remain intense (partly because of competition from over-the-counter derivatives markets, which provide similar risk management tools, such as swaps, to large customers).

But equally there is no reason to suppose that forthcoming developments at the US exchanges will mirror the dramatic changes seen in London and Paris. "The way it's going in Europe is a fully electronic market – it doesn't have to go that way in the US," says Marc Breillout, head of FIMAT Futures (USA), one of the largest futures brokers.

Pat Arbor, chairman of the Board of Trade, is even blunter: "I think people are rushing to declare open outcry to be dead. Like Mark Twain, I think reports of its death are exaggerated."

The first big difference between Europe and the US is that there is no catalyst compelling the Chicago exchanges to make an immediate switch to screen-based trading. The issue of monetary union, which threatens to eradicate the local monopolies many European exchanges have held, does not arise. And there is no equivalent of the Deutsche Terminbörse, the all-electronic German exchange that last month overtook Liffe in the total of turnover in all its contracts.

Perhaps the closest US parallel to DTB is a new electronic exchange proposed by Cantor Fitzgerald, the Manhattan-based broker-dealer, and the smaller New York Cotton Exchange. The latter wants to trade Treasury bond futures, and could undercut the Board of Trade's interest rate futures business. The Cantor exchange has yet to clear regulatory hurdles.

The second important difference is the strength and depth of the "local" population at the Chicago exchanges. These are the independent traders, who buy and sell for their own account. They inject valuable liquidity into the market and their role would be difficult to replicate electronically with present technology. Locals are a far more significant part of the Chicago exchanges, both in terms of the institutions' membership and trading volume, than at the SFE, Matif or even Liffe.

As Mr Breillout points out, end-customers want lowest transaction costs, but they also want *liquidity*. That is precisely what locals offer, particularly in difficult trading conditions. "Open outcry for me has some advantages. The disadvantage is the cost," he says. "But the efficiency of open outcry, especially in fast markets, is unmatched."

Meanwhile, other industry participants have yet to be persuaded that any screen-based system (using current technology) will work as well in complex contracts. "Some contracts would be very hard to put on an electronic market, such as the eurodollar, with all its intricacies," says Jim Gary, global futures manager at ABN-Amro.

The position of the two big exchanges is publicly to support the status quo for the time being, but to be prepared for screen-based trading should a catalyst emerge.

This process is clearest at the CME, where McKinsey, the consultancy firm, is reviewing all aspects of the exchange's business, from ownership structure to the conduct of trading.

At the same time, the CME has begun to introduce some contracts that are traded either electronically (the new "turn rate" futures), or via a combination of open outcry and screens (the "E-mini" stock index contract). Mr Gordon of CME says others might be considered in the coming months, and concedes the possibility of moving more illiquid contracts onscreen.

The Board of Trade, too, has bolstered its electronic capabilities via its alliance with Eurex, the European exchange resulting from the merger of DTB and the Swiss Soffex later this year. Mr Arbor still takes a firmer line against "hybrid" trading of contracts, but there are efforts to bring more electronic "clerking" to the trading floor, so that orders flow in electronically but are then executed through the pits.

The two exchanges have buried their traditional rivalry sufficiently to agree a "common clearing" system, a deal that could clip millions of dollars from members' costs. Agreement was reached in principle in March. The final package is due to be completed this month before going to members for approval.

Whether these measures will amount to anything more than a stop-gap on the road to fully fledged screen-based trading remains to be seen. Mr Gary, for one, is uncertain whether hybrid markets are a long-term solution. He says he is intrigued by them, but does not have an opinion about whether they are a good thing.

But he says: "I think the changes our industry is going to go through in the next 24 months will be as dramatic and fascinating as at any other period in its history." On that score, both exchanges would probably agree.

LETTERS TO THE EDITOR

Stragglers should be chased by EU institutions to implement legislation

From Dr Caroline Jackson MEP.

Sir, Your article, "Consumer protection downside" (Business and the Law: June 2), on the draft EU product liability directive highlights the likely attempt by the Socialist majority in the European parliament to extend radically the scope of the revised directive.

However, it failed to mention that, while the parliament is busily considering such a move, one member state, France, has only just (on May 19) adopted the act putting the EU basic directive on product liability of 1985 on to its statute book. For years the European Commission has been pursuing France through the European Court of Justice for failure to comply with a judgment of 1993 against it for non-implementation.

The position on product liability in fact brings out two regrettable tendencies in EU institutions when they turn to new legislation: first, the European Commission can seem much more energetic in producing and promoting new laws than it is in rounding up the stragglers and ensuring full implementation of those supposedly on the statute book.

It would help if it produced an economic impact study at the same time as it proposed new legislation. Then states would know what they were letting themselves in for before they signed up to something new. Ensuring this would be a real victory for the British EU presidency.

Second, the European parliament is only grudgingly interested in seeing what happens to the draft laws it launches so enthusiastically. The parliament's specialist committees will continue to widen the scope of this and other directives, regardless of cost and the likelihood of compliance.

Conservative MEPs believe that the parliament should be at least as interested in a constant review of compliance, and constant questioning of compliance costs. Awkward questions, perhaps, but somebody must bring them up the agenda.

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India nuclear test has economic rationale

From Mr Arun Khanna.

Sir, There are three important differences between the recently emergent nuclear nations of India and Pakistan. First, Indian conventional defence capabilities are constrained by the lack of adequate spare parts for equipment bought from the former Soviet Union. India's decision to go nuclear can therefore be viewed as its least costly economic option.

Pakistan's nuclear tests are essentially a political response to India's decision to go nuclear: they seem to have no other underlying rationale.

Second, the media in the west and the US government seem to be equating India with Pakistan. This ignores the fact that for more than two decades India voluntarily did not pursue any additional test after 1974. Whether such restraint can be shown by Pakistan remains to be seen.

Third, there is no danger of India being involved in any proliferation of nuclear weapons. Pakistan's nuclear programme, since it is funded, at least partly, by other Islamic nations and is termed as an Islamic bomb, carries with it inherent dangers of nuclear proliferation.

In the light of these three differences India should be holding joint talks with Israel (and even the US at a later date). The long-term interests of all democratic nations are convergent while those of theocratic Islamic countries are potentially at odds with them.

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Equitable division of motoring club's spoils

From Mr R.S. Guy.

Sir, The sale by the Royal Automobile Club of its roadside rescue service for £450m ($738m) will be of great help to the members. However, it does not seem quite fair or reasonable that a member of one year's standing should receive the same amount as one of 40 years or more.

My proposal is this. There are 12,000 full members. Assume, for example, an average membership of 15 years. This is a total of 180,000 membership years. This produces £450m, divided by 180,000 = £2,500 per year's membership. Therefore, a member of 15 years would receive £37,500 and members of longer standing £2,500 for each additional year. Members of 14 years or more would find it profitable to support such a scheme for a more equitable division of the spoils.

R. S. Guy,
54 Els Tossals,
Jesus Pobre,
Gata De Gorgos,
Alicante,
Spain

Battered, but southern Italy will rise again

From Mr Rosario A. Iaconis.

Sir, James Blitz's report on the Mezzogiorno's imminent demise is greatly exaggerated ("Now the Mezzogiorno climbs to the top of Prodi's agenda", May 27). Though it has been battered by mother nature and bedevilled by severe structural unemployment, the south of Italy will rise again.

In Calabria, Gioia Tauro has emerged as Europe's *fifth most active port* because its mayor, Aldo Alessio, provided the political will that enabled Contship Italia to transform a "cathedral in the desert" into an oasis of entrepreneurship.

Elsewhere in the region, from the health and ski resorts of Camigliatello to the international airport of Lamezia Terme, the time is ripe for significant home-grown enterprises to take root. Start-ups in Puglia, Campania and Sicily are already blazing new trails in financial services, manufacturing and tourism. Indeed, the Mezzogiorno's rate of growth in new companies is double the national average.

Romano Prodi's government could further accelerate private investment in the south by providing tax incentives for business incubators that nurture high tech firms. This would allow venture capitalists to convert emerging technologies into revenue-producing products and services.

As a result, new and diversified industries would create a plethora of private sector jobs. And an Italian economy bolstered by a revitalised, entrepreneurial Mezzogiorno would help put the Mediterranean basin on a par with Silicon Valley.

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FINANCIAL TIMES
Number One Southwark Bridge, London SE1 9HL
Tel: +44 171-873 3000 Telex: 922186 Fax: +44 171-407 5700
Thursday June 4 1998

The southern Balkan war

During the Bosnian war, the UK and France argued that their troops in the country, and the United Nations arms embargo, were preventing the conflict from spreading to the southern Balkans where it could do even more damage: if Kosovo were to ignite, Macedonia would soon disintegrate. War might then engulf the whole region, bringing in not only Albania but possibly Greece and Turkey, on opposite sides.

Now, nearly three years after the war in Bosnia ended, the war in Kosovo has begun. Regrettably, the great powers are confronting it with much the same fatal indecision that they showed for so long in Bosnia, and before that in Croatia.

The villain is still Slobodan Milosevic, now president of the rump federal Yugoslavia. As ever, he is seeking to extricate himself from his domestic problems (this time with Montenegro) by playing the nationalist card.

Exploiting Serb fears in Kosovo was what brought him to power in the first place. Now he is doing it again, with an all-out offensive that is driving thousands of ethnic Albanians across the border. And once again he has wrong-footed his foreign critics, striking just when, by agreeing to talks with moderate Albanian leaders, he had persuaded the international Contact Group to lift an investment ban.

Far more robust measures are needed, and quickly. Nato has started talking about deploying troops, but on the borders rather than where the actual fighting is. As was so long the case in Bosnia, it has succeeded mainly in frightening itself, by listing the logistical problems.

What eventually worked in Bosnia was full-scale economic sanctions combined with intensive air strikes against Serb weapons dumps and supply lines. Similar measures should be threatened now.

Once again, Russia is delaying such decisions by threatening to use its veto in the UN Security Council. Yet at the very same moment Russia is expecting western support to save it from a collapse of investor confidence. It should be told firmly that, if it insists on treating Mr Milosevic as its protégé, it will be held responsible for his behaviour.

The optimum outcome for the rest of the region would be the restoration of Kosovo's autonomy – perhaps giving it equal status with Serbia and Montenegro in a reformed federation. But the west has to face the prospect that the outcome may be independence for Kosovo, since that is what 90 per cent of the population claims to want. If that is to come, it must be carefully negotiated and managed. Premature recognition could all too easily precipitate war in Macedonia, as that of Croatia did in Bosnia.

Not for sale

In the most expensive state-wide race in American history, the good news is that money did not buy victory. The more Al Checchi poured into his campaign to be the Democratic candidate for governor of California, the worse his showing in the polls.

The regional economy is in good shape, the sun is shining, and voters have decided that dull is good. The aptly named Gray Davis, the Lieutenant Governor and a long established fixture on the Californian political scene, campaigned on the slogan that he had "experience money can't buy", and that was enough to win the day.

He will probably have to come up with something more invigorating if he is to pull off what the Democrats must now regard as their best shot of winning a major state in the mid-term elections later this year.

The other big issue in California was the outcome of two voter initiatives. Proposition 227, requiring the state's schools to teach all its children in English, was passed despite the opposition of all four main candidates for governor. And Proposition 226, which would make employers and labour unions obtain a worker's permission each year before withholding wages or union dues for political purposes, was defeated in the face of a last-minute advertising blitz by the labour unions. Both outcomes again show the shortcomings of a system that allows well-organised minority groupings to impose their will on the whole community through these blunt political instruments.

Outside California, the most closely watched campaign was in Alabama, which had been seen as an important test of the strength of religious conservatives. There, Governor Fob James Jr – a Republican who once threatened to bring out the National Guard to defend the right of a state judge to display the Ten Commandments on his wall – has been forced into a run-off against a more moderate opponent. That shows the continuing tensions within the Republican party, which are reflected more seriously in its failure to pull together a coherent leadership at the national level.

Governor James aside, incumbents appear to have done well in the eight states that voted on Tuesday. That is what you would expect at this stage of the political and economic cycle. The exception was a Republican from Southern California, the first incumbent to lose a primary this year, but he had a little problem: he is currently under house arrest for accepting illegal campaign contributions.

None of this makes campaign finance reform in the US any less urgent – or any more likely to happen soon. And with Monica Lewinsky back on the front pages, the political classes will have other things to think about during the hot summer months.

Italy's woes

It has long been clear that Italy's constitutional reform plans risked being sabotaged by Silvio Berlusconi, the scandal-prone leader of the conservative opposition party Forza Italia. Many will shrug and ask whether this setback really matters.

The reforms were, after all, flawed. Meantime the Italian genius for muddling through remains impressive – witness the Olive Tree coalition's ability to meet the Maastricht conditions and take Italy into European economic and monetary union at the first round, without a strong constitutional framework.

Even Italy's more nervous partners in Emu would have to acknowledge that the centre-left coalition under Romano Prodi has made significant progress in reducing its budget deficit. The commitment to bring about a further reduction in the deficit from 2.7 per cent of gross domestic product in 1997 to 1 per cent in 2001, which is reckoned to shrink the ratio of public sector debt from 122 per cent to 107 per cent of GDP, is a cornerstone of economic policy.

And yet, and yet. The difficulty is that the coalition remains fragile, depending for its continuing existence on the support of the communists. It is one thing to persuade the Italian public to accept the fiscal hair shirt while holding out the carrot of Emu membership; quite another to keep up the momentum in response to the pressures in future of the stability and growth pact. Mr Prodi's mantra about not rocking the boat before entry into Emu has, moreover, lost its relevance.

There are substantial challenges ahead. The reform of public administration, further privatisation and the need to address the state's pay-as-you-go pension liabilities, are three of the more obvious. Italy confronts one of the worst and most rapidly deteriorating demographic prospects in the European Union. Yet the Dini pension reforms of 1995 are widely acknowledged to have been inadequate in taking the measure of the problem. Nor are the requisite changes likely to meet with union support.

In the absence of a stronger executive, there must be concern about the sustainability of Italy's fiscal consolidation. Reform may well prove intractable if the stability and capacity of government remains dependent on the support of extreme parties.

For the moment the constitutional reform process is dead in the water. The best hope must be that it can recommence after a referendum on electoral reform next year. Without a stronger framework, there is a risk that Italian fiscal policy could become a serious source of friction within the European Union. Muddling through is no longer enough.

The danger of a safety net

Do bailouts lead to rash lending? Stephen Fidler argues there is a fine line between encouraging reckless investors and preventing systemic crises

As governments of the leading industrial countries discuss pouring in more money to stave off financial crisis in Russia, worries mount that big international bailouts are encouraging reckless behaviour by foreign investors and bankers.

A $50bn international effort for Mexico in 1995 was followed by bailouts last year totalling more than $100bn for Thailand, Indonesia and South Korea. Now the US says it will back proposals to expand a $10bn International Monetary Fund package for Russia.

Much of this public money has gone to pay off private investors, many of them lenders of short-term funds whose behaviour helped precipitate the crises in the first place. "The biggest sinners are those who can exit the fastest," says Amar Bhattacharya, economic adviser to the World Bank.

"We want to see more fear in the international financial system," says a senior policymaker in one Group of Seven government who believes investors would lend more wisely if they stood to swallow more of any resulting losses.

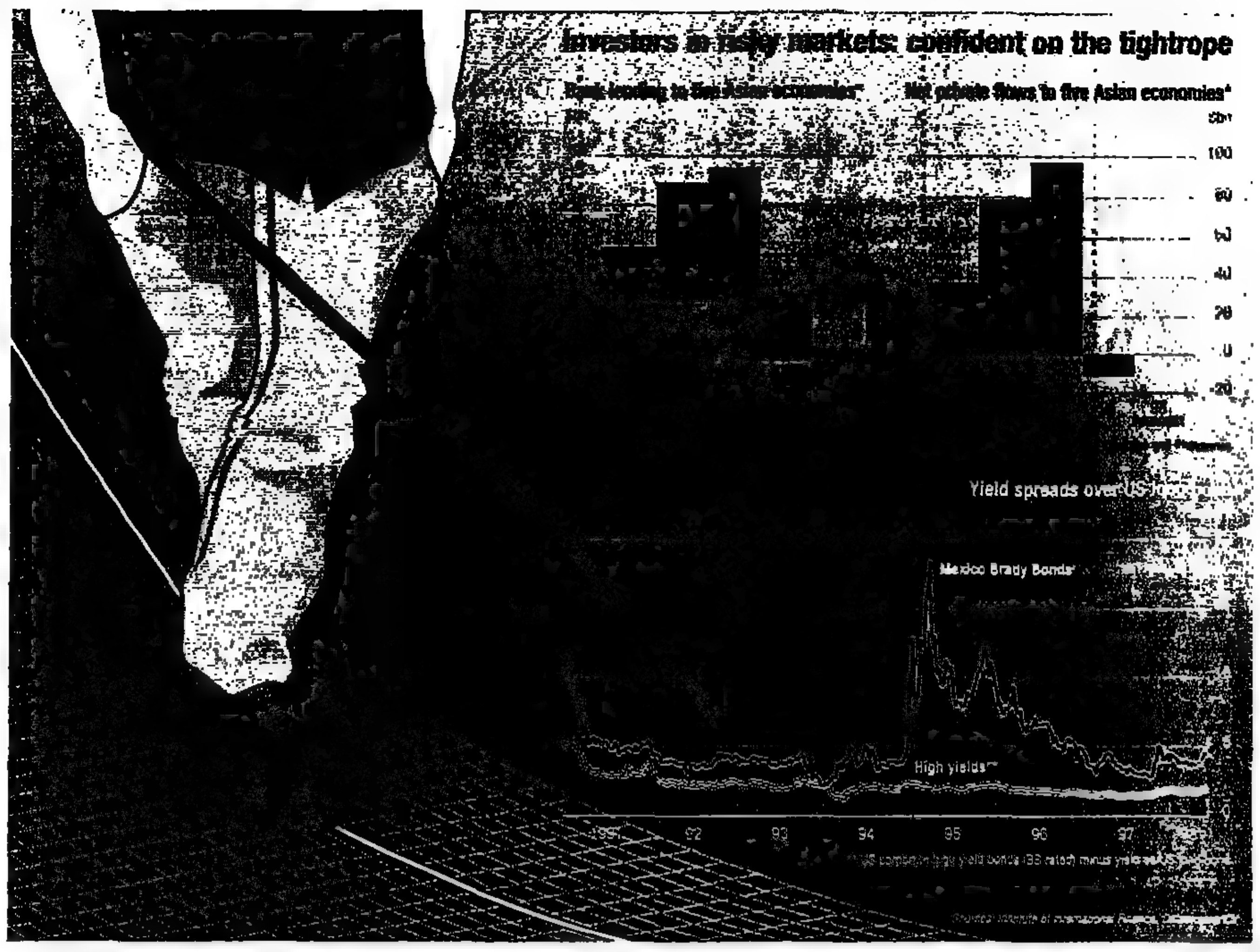
The problem is encapsulated in the phrase "moral hazard", a concept that has been around at least since Adam Smith. He observed in *The Wealth of Nations* that managers of companies they did not own would always be more negligent than owners. Economists define it as the actions of those seeking to maximise their own utility to the detriment of others, where they do not bear the full consequences of those actions.

The case against bailouts is put by Charles Calomiris, professor of finance and economics at the Columbia Business School. Writing in the journal of the libertarian Cato Institute, he asks: "What will foreign banks learn from the 1994-95 Mexican crisis, or the recent Asian crisis? I fear they are learning that they can lend without fear of default because of the implicit protection of the IMF and the US Treasury."

The case for the defence is put by Ricardo Hausmann, chief economist of the Inter-American Development Bank. He says the argument that the bailout of Mexico helped foment Asia's crisis by generating moral hazard "holds no water whatsoever".

"I don't know any argument that has gained so much credence with so little empirical evidence," says Mr Hausmann. "For a lot of people the words 'moral hazard' are like a nursery rhyme: it reminds them of things they learned as kids and they can't forget the melody."

So what does the evidence show? And if moral hazard does exist, how much are the international institutions to blame?



Bank lending to the five troubled Asian economies – South Korea, Indonesia, Malaysia, Thailand and the Philippines – *did* rise sharply after the Mexican bailout. Net new loans from banks rose from $23.4bn in 1994 to $55.7bn in 1996, according to the Washington-based Institute for International Finance. Lending by the bond market also jumped from $2.4bn in 1994 to $22.7bn in 1996, while equity investments rose by 50 per cent to $18bn.

But it is not clear this reflects the expectation of bailouts, rather than a combination of plentiful liquidity and the conviction that these were all well run, low-risk economies. A significant proportion of the investments were directed to areas, such as lending to companies, that were unlikely to be bailed out.

"The fact that so much of the capital entering the economies was in this unprotected form suggests that moral hazard was not the dominant reason for the surge in capital flows," says Mr Hausmann.

Another test is to compare the behaviour of spreads (the interest margin over riskless US Treasury bonds) of emerging market debt instruments with those on high-yield US corporate bonds. While both types of high-yielding bonds carried similar ratings, only emerging market debt would supposedly benefit from an IMF safety net.

According to figures from US security houses, between 1994 and 1997 spreads on high-yield US corporate debt narrowed more than those on emerging market debt, the reverse of what would happen if moral hazard were decisive. The data suggest that plentiful international liquidity led investors to reach for high yields in a variety of markets before the Asian crisis. (The evidence is not conclusive since supply conditions in both markets could have been different.)

If moral hazard did not have a clear impact before the crisis, what about afterwards? The panic that followed the onset of Asian turmoil is difficult to square with any supposed expectation of an international bailout.

From the other end of the telescope, it is also questionable whether IMF-sponsored safety nets encourage reckless behaviour by governments of borrowing countries. The rescue package for Mexico hardly allowed it to escape lightly: domestic demand sank by 14 per cent in 1995. According to J.P. Morgan, Korea and Indonesia are likely to experience a plunge in domestic demand this year of 18.5 per cent and 20 per cent respectively.

In testimony to a House committee last month Alan Greenspan, chairman of the Federal Reserve, did not deny an element of moral hazard in IMF packages. But he added that "arguably it has been the expectation of government support of their financial systems that has been the more obvious culprit, at least in the Asian case". In any event, he said, many investors in Asia had suffered substantial losses.

In other words, the moral hazard problem in Asia arose mainly in the expectation of bailouts within domestic financial systems. This encouraged excessive borrowing by banks and reckless foreign lenders. If the IMF contributed to this problem, it arose from the extent to which investors may have expected it to provide foreign exchange to service debt to foreign banks.

In practice, the expectation and extent of IMF intervention differs from country to country. Thailand is not as important as Mexico to the US and the IMF; thus it is unclear how the Mexican bailout could have set any realistic precedent in Asia.

Russia is a different matter. Partly because of its nuclear arsenal, Moscow looms large on the screens of US and other G7 policymakers. Politics, rather than economics, is likely to be the main motivating force behind any bailout – though a crisis in Russia could ignite further financial problems elsewhere.

With investors clamouring for – and expecting – a bailout (see below), a big support package for Russia is replete with moral hazard problems. Yet such a bailout may still be sensible. If more fear is created among bankers and investors in Russia, it risks producing the very financial crisis policymakers are trying to avoid.

This trade-off, according to Mr Hausmann, is missed by many. "There is a pendulum swinging between being concerned about systemic crises and doing things that would reduce their likelihood. The truth of the matter is that there is a trade-off between moral hazard and systemic risk," he says. "Maybe there is moral hazard, but policies should not be designed assuming there is *only* moral hazard. Then you risk falling into a crisis because you have eliminated all crisis protection."

A moral tale from Moscow

As a financial crisis batters the Kremlin walls and calls for a western bailout grow more shrill, Moscow has discovered a burning interest in moral hazard.

"I've had two or three conversations about it this week," says Rory MacFarquhar, an economist at Russian Economic Trends, an independent think-tank. "The problem of moral hazard and the potential that it will somehow encourage risky behaviour is clearly something the IMF is worried about."

Any conviction that Russia is too big to fail could prompt rash investments. "Knowing that the IMF is around might make you think the risk of losing everything is a lot less," says Mr MacFarquhar.

As Russia's financial storm has intensified in recent weeks, Moscow's financial community has urged an international rescue package. This may have helped drive the recovery of the past two days when shares bounced back more than 20 per cent. "People are now investing on the fact that there will be a bailout," says John-Paul Smith, Russian equity analyst at Morgan Stanley.

"If there is a total crash at this point," says Eric Kraus, chief strategist at Regent European Securities, a Moscow-based brokerage, "it will be three to four years before you see any more money coming in."

But, the IMF has been reserved about the need for a bailout, insisting that Russia's crisis has been overblown. One motive may be a desire to keep pressure on the Kremlin, which could also be prey to moral hazard.

The IMF is particularly suspicious of Kremlin promises to restructure short-term, rouble-denominated debt into longer-term, cheaper hard currency loans. This may be rooted in fears that Russia might use the "breathing space" to accumulate new short-term rouble debt next time a crisis strikes.

As they struggle to maintain a foothold in Russia's trembling markets, most investors have little patience for abstract arguments about moral hazard. "What you have here is like a run on a solvent bank," argues Bill Browder, founder of Hermitage Capital Management, an investment fund. "This has nothing to do with moral hazard. It has to do with a lot of scared investors running to the door at the same time."

Unless investor confidence is restored, the rouble is at risk of a devaluation. That could reignite inflation, destroy public confidence in the financial system and kill support for market reforms. It seems a safe bet that these hazards of non-intervention are likely to outweigh the moral hazard of an IMF rescue.

Chrystia Freeland

OBSERVER

Marriages of convenience

Shareholders don't like it and analysts hate it, but it looks like there's a real vogue for power-sharing at the top of big American companies.

The latest hook-up is between John Stafford, the aggressive lawyer who runs American Home Products, and Monsanto's Robert Shapiro, a New Age management guru, who will be co-chief executives of the merged company. This week has also seen Hank Paulson elevated to co-chief executive and co-chairman with Jon Corzine at investment bank Goldman Sachs.

Other recently-fashioned duets include Sandy Weill, the dynamic entrepreneur who built Travelers, and the more cerebral John Reed of Citicorp, who will jointly head the new Citigroup.

Weill has assured shareholders that he has had plenty of practice in being told what to do – not at Travelers, you understand, but in his 43 years of marriage.

Indeed, his faith in power-sharing is such that he recently appointed Deryck Maughan, the Brit who ran Salomon Brothers, and Jamie Dimon, who already controlled Travelers' Smith Barney, as co-bosses of Salomon Smith Barney.

Of course these corporate marriages tend to be made not in heaven but in the course of merger negotiations – though Goldman, still for the moment a partnership, has a long tradition of power sharing.

Investment bankers privately admit that fear of losing job and status, rather than innate flaws in the merger plan, is the most common stumbling block in negotiations: after all, the rewards of the current merger boom are substantial for those who stick around.

There will be lots of eyes watching how these arranged marriages fare. Observer will be particularly interested to see whether their success rate is better or worse than that of US civil marriages, 50 per cent of which now end in divorce.

Water course

Malaysian prime minister Mahathir Mohamad isn't usually listed among the most liberal of world leaders, and the upheavals in neighbouring Indonesia don't seem to have encouraged him to open the doors to popular protest.

Yesterday, a consumer rights group was to have met Kuala Lumpur residents to discuss a water shortage that has left 2m people with no regular supply – if you're lucky, the tap runs every second day. The authorities aren't doing much about the antiquated water system, and say rationing could get worse before it ends altogether – just in time for Commonwealth Games in September.

The unworthy thought has crossed some minds that the authorities are hoarding water to avoid international embarrassment. The idea of this being said out loud proved too much for the government, which banned the meeting "for security reasons". The opposition says two other public gatherings have been banned in the last few days.

Even before the Indonesian brouhaha, the approach of the Commonwealth games was increasing official tetchiness. For example, the authorities have told television stations their licences will be revoked if they use the word "haze" – though they haven't specified an alternative way of describing the intermittent thick smog from forest fires in Indonesia.

In the face of government paranoia, the four main opposition parties have signed a declaration that Malaysia was heading towards a "police state". Stopping opposition squabbling can't have been the result Mahathir had in mind.

Chill factor

India's new defence minister George Fernandes hasn't just been exploding nukes below the desert – he's also putting bombs under bureaucrats.

Apparently soldiers on the Siachen glacier, an area disputed with Pakistan, asked for 10 snowmobiles a year ago. When Fernandes arrived in his new office in April, the request was still in someone's in-tray.

The outspoken, unorthodox new minister is sending the machines to Siachen – along with three officials. The hapless pen-pushers have to spend a week on the glacier "to familiarise themselves with the needs of troops posted there". Siachen is 500 miles from the fleshpots of New Delhi and more than 20,000 feet above sea level. The temperature tends to be about minus 55 Celsius, with howling gales adding to the fun.

The fiery Fernandes is apparently signalling that "familiarisation postings" could become quite common for laggards in the cumbersome bureaucracy. You can almost hear those pending files being dusted off in New Delhi.

Know thine enemy

Stuart Eizenstat, US undersecretary of state, is terribly proud of the US-European Union pact on sanctions against Cuba – and yesterday he was on Capitol Hill to tell the House International Relations Committee just how well Uncle Sam did in the months of wrangling that led to it.

It's not going to be easy for Eizenstat to convince legislators to junk the tough Helms-Burton law, so he brought along a pile of visual aids to assist understanding.

His first piece of evidence for the quality of the accord was a cutting – from the Financial Times – headlined "Castro denounces EU-US accord on Cuba". Never mind the arguments for the deal, just look who's against it.

The Financial Times

100 years ago

Death Of Mr. Plimsoll

Mr. Samuel Plimsoll, who died early on Friday morning at the age of seventy-four, will deserve a place in the annals of the nineteenth century by reason of his devoted and in large measure successful efforts to improve the condition of the sailor. His crusade against over-loading and coffin ships led to the enactment which created the famous load-line, or Plimsoll mark, and it was chiefly through his exertions that other Acts were passed for lightening the dangers and hardships of a sailor's life.

50 years ago

S. Africa Cabinet Selections

Johannesburg, June 3. There is considerable satisfaction here at the selection by Dr. Malan, the new Prime Minister, of Mr. N.C. Havenga, leader of the Afrikaner Party, for the portfolio of Finance. Previously, it had been reported that Dr. T.E. Donges would be Minister of Finance, and Mr. Havenga Minister of Mines. While that was acceptable, the choice of Mr. Havenga as Minister of Finance was welcomed with a great deal of satisfaction. The appointment of Mr. Eric Louw as Minister of Mines is a surprise selection.

FINANCIAL TIMES

THURSDAY JUNE 4 1998

THE LEX COLUMN

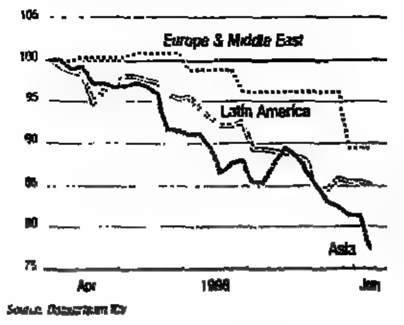
In need of Big Brother

The dreaded C words have come back to haunt emerging markets - currencies and contagion. The recent plunge in the rand and the rouble has been a reminder that currencies remain critical in emerging markets. They may be symptoms of other problems, but quickly become important causal factors themselves. Contagion, meanwhile, is not popular in polite company. But the downward march of emerging markets across the board in recent weeks shows it to be alive and well.

The reality is that as cross-border flows into emerging markets increase, so correlation between markets rises. It matters less now where the trigger event is. Fears of higher US rates, weakness in Japan, tension in the sub-continent – all reverberate globally. And when the backdrop is unsettled, contagion trumps domestic fundamentals. The upshot is that 1998 is proving a further *annus horribilis* for emerging markets. The full depths of Asia's difficulties become ever more apparent and Latin America continues to struggle.

Not even the one beacon of hope - emerging Europe, Middle East and Africa - has escaped the latest bout of jitters. But applying the Big Brother rule – that emerging markets often reflect the health of their nearby G7 neighbours – it still looks the best bet over the coming year. Eastern Europe looks well placed to bask in the warm glow of economic recovery in the west.

Emerging markets
IFC indices (rebased in $ terms, April 21 1998=100)



Source: Datastream/ICV

Telecoms equipment

Looking for the real winners in the communications revolution? Try the telecoms equipment providers which make the arcane switches and circuits at the heart of today's new-fangled networks. Ciena, whose gear allows long-distance operators hugely to boost the capacity of their fibre-optic wires, was yesterday valued at $7.1bn in a takeover. Not bad for a company with sales of $370m last year.

Granted, Ciena is growing at nearly 50 per cent a year and is already very profitable. But Tellabs, the buyer, can afford a price of 35 times estimated 1999 earnings only because it is paying with its own shares – which are trading at a similarly elevated multiple. Nor is this limited to young start-ups. Lucent, the industry's gorilla, has seen its stock quintuple since it was spun off from AT&T two years ago and is now rated just as highly.

Can Wall Street's enthusiasm be justified? Certainly, as voice, video and data traffic converges, operators are spending billions overhauling old networks and building new ones – Sprint being this week's example.

But new technology is also bringing fresh competition: Sprint has turned to Cisco, a computer networking group, to supply much of its new kit. The real worry, however, is that as the US forges ahead, European suppliers such as Siemens and Alcatel, which are still largely tied to staid national phone companies, will fall further and further behind.

Channel tunnel rail link

From its deathbed in January, London & Continental Railways has emerged, blinking, into daylight. However, its revival raises many questions – hardly surprising given the opacity of the process. The taxpayer would have been better served if construction of the link had been re-tendered. The direct additional subsidy LCR will receive from the government, of £140m-£360m, may seem much lower than the £1.2bn it was demanding four months ago. But the implicit value of having government guarantees behind £3.8bn of LCR debt more than makes up the difference.

In return for this guarantee, the government has scored political points by reducing the concession's length from 999 years to less than 90. And it will also take 35 per cent of post-2020 pre-tax profits, which it optimistically values at £200m. All in all, while Railtrack is assuming some construction risk, the cost of driving down the Channel tunnel rail link's cost of capital is being borne largely by the taxpayer.

For Railtrack, the negotiations have been a success. By getting the project broken up into two phases, it has avoided having to take the whole link on board in one go, while keeping an option on the second phase. But perhaps more positive for Railtrack's shares has been the expectation that it will be well placed to drive a hard bargain at its forthcoming regulatory review.

Japanese accounting

News that Yamaichi's auditors are being sued by disgruntled shareholders is hardly surprising. They signed off on accounts which were later revealed to have hidden Y260bn of losses. But this is more than just a little local difficulty. If it serves as a prod to improve Japanese accountancy practices, it will make Japan a much more friendly environment for foreign investors.

Right now, only a small number of the largest companies adhere to international accounting standards. Beyond these few dozen companies, the picture becomes much murkier. Cosy relations between companies and auditors impugn the veracity of audited figures. Consolidated accounting is still scarce and cash-flow statements are unaudited. Fortunately, Japan's 'big bang' will usher in reforms which should help address these concerns.

Short-term, this could see some nasty gremlins emerging from the woodwork. Longer term, though, the increased transparency should provide the confidence to underpin higher ratings. Indeed, this was clearly a key factor which helped support valuations of the so called "nifty" stocks last year while all around them were dissolving.

For global accountancy firms, meanwhile, these developments are also welcome. Current tie-ups with Japanese firms fall far short of providing an assurance of uniform global standards. But if the government does its bit, and more assertive shareholders emerge, that day will draw closer.

Yamaichi shareholders sue auditors for misconduct

By Gillian Tett in Tokyo and Jim Kelly in London

The auditors of Yamaichi Securities, the Japanese broker which collapsed last November, are being sued by shareholders for misconduct. The suit is the first fully-fledged legal action taken against an auditing firm in Japan.

The action against Chuo Audit Corporation, part of the Coopers & Lybrand international network, could prompt reforms in accounting procedures in Japan which have been heavily criticised by western investors.

Forty shareholders in Osaka are suing the Yamaichi management and Chuo Audit for damages over *losses incurred as a result of* the collapse of the Yamaichi share price.

Hiroshi Nakaji, head of Nakaji Audit Corporation and incoming chairman of Japan's Accountancy Society, said: "This is new in Japan. It will force the accountancy profession to act more rigorously in the future."

The action is an embarrassment to *Coopers & Lybrand* which is on the verge of completing a $13bn merger with Price Waterhouse designed to provide *multinational clients* with a "seamless global service".

But yesterday Coopers said Chuo Audit Corporation was a *separate* legal entity and that any liability would be ring-fenced from its international network and Price Waterhouse. No legal action is planned against Coopers.

Several of the Big Six audit firms have been worried for some time about their network partners in Japan and have been privately seeking to improve standards in both accounting and auditing.

The collapse of Yamaichi has caused particular controversy in *Japan* because the broker was holding Y260bn ($1.86bn) in hidden losses. These had been concealed *from investors* in the past by shuffling them between accounts in a practice known as "tobashi".

After the collapse, *Japan's* Ministry of Finance insisted the company was still solvent.

However, this week Yamaichi admitted that liabilities exceeded assets by Y22.5bn and said it could not fully repay its Y43m subordinated loans from Japanese insurance companies.

The ministry denies it knew about these hidden losses. Chuo yesterday refused to comment.

Any potential damages awarded are likely to be small. And some Japanese lawyers suspect the case will fail because defendants will claim the ministry knew about the *tobashi* losses.

But lawyers argue the case could set a very important precedent. A shareholder in a failed housing loan company is now also trying to sue accountants. One Japanese lawyer says: "Until now the accountants felt responsible to no one. This could change things."

Japanese accountants have traditionally had very close relationships with the companies they audit. In contrast to countries such as the US, they are allowed to audit the same *company for decades.* However, Mr Nakaji said he now plans to introduce a five-year time limit.

See Lex

Arthur Andersen shelves deal with City of London law firm

By Robert Rice and Jim Kelly in London

Arthur Andersen, the Big Six accountancy firm, yesterday suffered a setback in its ambitions to construct a global legal network when it pulled out of a planned takeover of Wilde Sapte, a City of London law firm.

The accountant, which has already *made significant acquisitions in* Europe, indicated yesterday that high profile departures from the law firm since the deal was announced in March meant the make-up of the business it wanted had changed.

The collapse of the deal casts doubt on the ability of any of the so-called Big Six accountancy firms to realise their strategies of building a global network of law firms with *strong links in London and New* York. "Frankly, it's a nightmare," said a senior partner at a Big Six firm. "*In London the four or five top* legal firms think they can go it alone and don't want a deal. The rest can't seem to deliver their partners."

The collapse of the deal is a blow to Andersen. The agreement with Wilde Sapte had ended an 18-month search for a leading City banking and financial law practice to join its growing legal network of 74 offices in 31 countries.

Nick Prentice, Andersen's head of tax and legal practice, said he was sorry the agreement had foundered, but the search would go on for *another City law firm. "The strategy* is right and we are still aiming to build a strong international law network offering *English* law advice," he said.

The deal, which involved Wilde Sapte merging with Andersen's UK law firms – Garretts and Dundas & Wilson – on September 1, would have created a firm of 750 lawyers with a turnover of £100m ($164m), *making it the UK's sixth biggest* practice.

But the departure of Graham Smith, *former head of leasing* at Wilde Sapte, to rivals Allen & Overy, the international law firm, closely followed by leading asset finance partners David Smith and Mario Jacovides, had badly dented the business case for doing the deal. Mr Smith and *Mr Jacovides* voted in favour of joining Andersen and then resigned. According to one lawyer close to the deal, Andersen began to fear a repetition of events following its takeover of S G Archibald in France when several of the Paris law firm's best lawyers walked away.

It is also understood Wilde Sapte's Paris office voted against the deal.

The law firm's future could now be under threat. *It has lost several of* its leading lawyers in recent years and had made no secret of the fact that it was looking for a merger.

One senior partner of another City law firm said: "It's going to be an extraordinarily tough time for Wilde Sapte and I suspect the firm may not *survive.*"

Lawyers also said that having pulled out of talks with Simmons & *Simmons last year* and now having called off the deal with Wilde Sapte, Andersen had torpedoed any chance of serious discussions with any other City law firm.

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News

US secretary of state Madeleine Albright and President Bill Clinton vowed to renew China's most favoured nation status. Page 6 Picture AP

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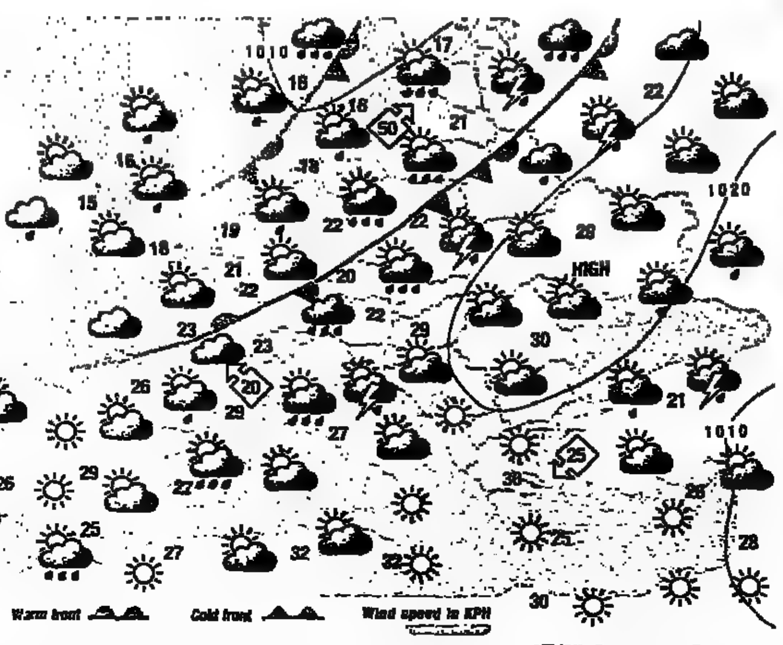
FT WEATHER GUIDE

Europe today

Scandinavia will have heavy rain with scattered thunderstorms, but Norway and Denmark will become brighter with showers. Rain over north-western Europe will gradually move away. There will be heavy showers and thunderstorms in the area from the Baltic states and central Europe to the Alps. Thundery rain will move into north-west Russia and the northern Balkans later. North Italy, south-east Spain and the Balearics will also have heavy showers and thunderstorms. The rest of the Iberian peninsula and the Mediterranean should be dry and sunny.

Five-day forecast

Western areas will be showery over the weekend with heavy downpours. Rain will spread across central and eastern regions early next week. Spain, northern Italy, northern Greece and the Balkans will have thundery weather with scattered heavy showers



Situation at midday. Temperatures maximum for day. Forecasts by PA WEATHERCENTRE

TODAY'S TEMPERATURES (Maximum Celsius)

Abu Dhabi	Sun	44
Accra	Shower	29
Algiers	Sun	27
Amsterdam	Shower	19
Athens	Sun	30
Atlanta	Fair	35
B. Aires	Sun	20
B'ham	Shower	16
Bangkok	Thunder	33
Barcelona	Fair	25
Beijing	Fair	26
Belfast	Fair	16
Belgrade	Fair	12
Berlin	Shower	22
Bermuda	Shower	26
Bogota	Shower	19
Bombay	Sun	35
Brussels	Fair	21
Budapest	Fair	29
C'hagen	Shower	18
Cairo	Sun	33
Caracas	Cloudy	32
Cardiff	Cloudy	17
Casablanca	Fair	23
Chicago	Fair	17
Cologne	Fair	23
Dakar	Fair	27
Dallas	Sun	39
Delhi	Fair	43
Dubai	Sun	42
Dublin	Cloudy	15
Dubrovnik	Sun	28
Edinburgh	Cloudy	15
Faro	Fair	22
Frankfurt	Fair	24
Geneva	Fair	23
Gibraltar	Fair	24
Glasgow	Shower	16
Hamburg	Fair	19
Helsinki	Shower	17
Hong Kong	Rain	29
Honolulu	Fair	29
Istanbul	Fair	22
Jakarta	Fair	[illegible]
Jersey	Cloudy	19
Johannesburg	Sun	19
Karachi	Sun	35
Kuwait	Sun	41
L. Angeles	Sun	21
Las Palmas	Fair	25
Lima	Cloudy	23
Lisbon	Fair	26
London	Fair	18
Lux.bourg	Fair	22
Lyon	Fair	25
Madeira	Shower	22
Madrid	Fair	29
Majorca	Shower	27
Malta	Sun	32
Manchester	Shower	15
Manila	Fair	33
Melbourne	Fair	[illegible]
Mexico City	Sun	28
Miami	Sun	35
Milan	Thunder	26
Montreal	Fair	16
Moscow	Cloudy	22
Munich	Rain	20
Nairobi	Fair	25
Naples	Fair	30
Nassau	Sun	32
New York	Cloudy	23
Nice	Shower	23
Nicosia	Sun	26
Oslo	Shower	16
Paris	Fair	23
Perth	Shower	19
Prague	Shower	20
Rangoon	Shower	33
Reykjavik	Cloudy	10
Rio	Shower	24
Rome	Shower	27
S. Frsco	Fair	19
Seoul	Cloudy	21
Singapore	Fair	32
Stockholm	Cloudy	18
Strasbourg	Shower	24
Sydney	Rain	17
Tangier	Fair	25
Tel Aviv	Sun	28
Tokyo	Shower	29
Toronto	Cloudy	15
Vancouver	Fair	19
Venice	Thunder	26
Vienna	Shower	22
Warsaw	Thunder	22
Washington	Cloudy	23
Wellington	Sun	13
Winnipeg	Fair	12
Zurich	Shower	23

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FINANCIAL TIMES
COMPANIES & MARKETS
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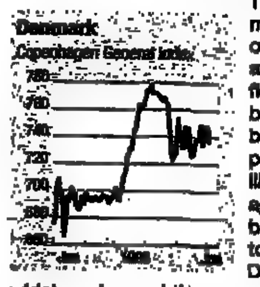
Week 23

INSIDE

Dublin encourages domestic listing of technology stocks

Some Dublin brokers are taking on technology analysts to encourage domestic listings. Nasdaq, the Washington-based electronic exchange, has lured away many promising Irish companies. But now some analysts estimate that up to 12 Irish-owned technology companies could seek a dual listing over the next two years. Page 17

Denmark's bourse eases 1.4%



The Danish government's complex package of economic measures at first appeared to baffle the stock market before a fall in the benchmark index of 1.4 per cent to 232.13. The likely effect of the package is to shift the tax burden from companies to individual investors. Danish economists, who widely welcomed the measures, say they are likely to take some steam out of the economy. Page 34

East German group to launch IPO

East German industry is to make a rare appearance on the Frankfurt Stock Exchange with the initial public offering of 22.7m shares in Jenoptik, the technology group and one of the few survivors of the transition from communism. Page 22

British Steel looks set for rebound

The weaker pound against the D-Mark has brought relief to British Steel. On June 15 the company announces results for the year to March 31. While profit expectations are way below the £1.1bn ($1.8bn) in 1995-96, analysts expect a rebound in the next couple of years. Page 20

India's budget brings mixed fortunes

India's budget has upset projections of corporate profits, producing a list of winners and losers. Analysts say metals, cement and petrochemical industries will gain, while vehicle makers, consumer goods and tobacco groups lose. Page 19

Jamaica's miners reach bauxite deal

Jamaica's bauxite miners and refiners have reached an agreement with the government and trade unions to try to restore the industry's competitive edge. Rising costs are threatening plans to upgrade the country's refineries. Page 24

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MARKET STATISTICS

ACQUISITION SPARKS INVESTOR ENTHUSIASM ON WALL STREET FOR SHARES IN OTHER TELECOMS EQUIPMENT MAKERS

Tellabs in $7bn deal for rival Ciena

By Richard Waters in New York

Tellabs, a fast-growing US telecommunications equipment company, yesterday unveiled a $7bn acquisition of rival Ciena.

Ciena, a six-year-old company that came to the stock market last year, has sprung to prominence by specialising in part of the technology needed to construct a new generation of high-capacity telecom networks.

The all-stock purchase touched off a wave of enthusiasm for other equipment makers on Wall Street, as investors looked for further mergers in a sector which is being transformed by the internet. Shares in 3Com, one of the biggest makers of data networking equipment, jumped by 8 per cent on the news.

Michael Birk, chief executive of Tellabs, said the acquisition was intended to create a company with the broader product and geographic reach to be able to compete with established international giants of the telecom equipment industry like Alcatel and Lucent. The aim was to create a company that would count among the world's three leading telecom equipment makers within five years, he said.

Tellabs, whose shareholders will control 65 per cent of the company after the acquisition, makes the equipment that manages the traffic on fibre optic networks. More than half of its $1.2bn in revenues last year came from digital cross-connect systems, which allow traffic to flow to different parts of a network in a way that makes the most efficient use of their capacity.

Ciena is a specialist in wave division multiplexing, a technology that makes it possible to cram far more information down existing fibre optic cables. Its main product enables telecom companies to increase the capacity of their networks by a factor of 16.

However, the company's shares lost some of their early gains earlier this year when it emerged that Lucent, the former telecom equipment arm of AT&T, had leapfrogged it with technology that could channel even more traffic down a single strand of fibre.

Ciena is thought to have been the subject of close interest from other companies looking to expand their product range, including Cisco Systems, the leading maker of data networking equipment. The agreement to be bought by Tellabs includes a $200m break-up fee Ciena would pay if the deal was not completed.

News of the acquisition came a day after Sprint, the third-largest US long-distance carrier, announced an ambitious plan to overhaul its infrastructure to produce a single network capable of carrying voice, video and data signals at lower cost. Sprint is a large customer of both Tellabs and Ciena, and Mr Birk said its plans to revamp its network helped explain why the two had decided to combine. Tellabs' biggest customers are the US Baby Bells, which are trying to modernise their voice networks to handle data traffic; Ciena's strongest links are with the newer telecom companies, which have attempted to build integrated voice and data networks from scratch.

Tellabs said it would offer one share for each of the 108m fully diluted shares of Ciena. Its stock slipped $2¾ on the news to 63\frac{11}{16}$, while Ciena's shares rose $4¼ to 61\frac{13}{16}$.

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Indonesia dispute over Suharto steel privatisation deal

By Peter Montagnon and Sander Thoenes in Jakarta

Fresh controversy has broken out over Indonesia's privatisation programme after revelations that the Suharto administration quietly agreed to sell the country's largest steel company shortly before it was ousted last month.

A memorandum of understanding to sell a stake of up to 51 per cent in Krakatau Steel for about $400m was signed on May 7 with Ispat International, the Indian-controlled company that has been expanding rapidly in the developing world, according to Krakatau executives.

But the deal, on which the directors say they were not consulted, was not made public at the time. Objections to the secrecy surrounding the sale prompted the resignation this week of Soetoro Mangoensoewargo, Krakatau's president, who refused to continue after the "mysterious" way the deal was handled.

The affair has fuelled demands for a more transparent approach to privatisation of Indonesia's large public sector companies – an integral part of any economic recovery programme.

Djoko Subagyo, Krakatau's acting president, said he and other directors were summoned to witness the ceremony where the memorandum of understanding on the sale was signed by Tanri Abeng, minister of state enterprises. But they were not shown a copy of the document, which the minister pocketed.

Mr Abeng has retained this portfolio in the new government of B. J. Habibie, the Indonesian president. Yesterday he said the sale to Ispat was not finalised and there would still be an open tender for the steel company.

Yesterday Ispat International refused to comment on any deal in Indonesia.

Lakshmi Mittal, the company's controlling shareholder, chairman and founder, also runs privately owned steel companies in Kazakhstan and Indonesia. Including these operations, plants around the world controlled by Mr Mittal are expected to make 19m tonnes of steel this year – making his group the third-largest steelmaker globally.

Indonesia needed foreign capital, but everything must be transparent, said Sjahrir of the Ecfin economic consultancy. Unless Mr Abeng could make a full account of the process, it was uncertain whether the deal would go through.

According to the memorandum, Indonesia agreed to sell 49 per cent of Krakatau to Ispat with a possibility of selling 51 per cent if the price was satisfactory. Ispat is due to complete the deal by the end of this month.

But Mr Mangoensoewargo said the company had been working with its advisers Nomura International on a different plan. This included finding a strategic partner in a deal involving a share issue and the government retaining a 55 per cent stake. Executives from Nomura were not available for comment.

Chorion chairman John Conlan was at the centre of a mystery worthy of Hercule Poirot yesterday after his company bought a majority stake in Agatha Christie Ltd from Booker for £10m ($16.4m). It was claimed a rival had been prepared to pay double. Report, Page 20 Picture: Ashley Ashwood

Russia launches $1.25bn bond issue

By Edward Luce in London

Russia took the international bond markets by surprise yesterday with a $1.25bn offering priced at almost double the premium it paid when it last visited the markets this year.

Proceeds from the bond – the country's fifth on the international markets since it made its debut in November 1996 – are expected to contribute to the defence of the embattled rouble in the absence of any extra assistance from the International Monetary Fund.

Senior bankers in London and New York said they were caught unawares by the timing of the issue in the light of the battering Russia has taken on the foreign exchange markets in the past two weeks.

Rumours in the market had suggested Russia was planning to take out a large syndicated loan from a consortium of German banks to help defend the rouble. In addition, Russia was understood to be requesting official assistance from the group of seven leading industrialised countries. Issuing a bond, however, was considered unlikely.

"This is a large bond issue, but it is not large enough to shore up Russia's foreign exchange reserves very effectively," said one bond official in London yesterday. "At the same time it has sharply raised the premium at which Russia borrows dollars from the bond markets."

Yesterday's bond, which was lead managed by Goldman Sachs, was priced to yield 650 basis points over the five-year US Treasury bond. This compares with a spread of 345 basis points on Russia's last five-year dollar bond. The coupon was just under 12 per cent. "A coupon at this level looks worryingly high," said one trader.

But the yield on Russia's domestic rouble-denominated government bond has increased dramatically in the past month to 64 per cent. This means it would be much more expensive for Russia to tap its domestic market than to go overseas. Traders said it was cheaper for Russia to borrow in dollars, but if the rouble depreciated any further it would be increasingly difficult for Russia to keep up on the interest payments.

Yesterday's bond issue follows a general sell-off of emerging market paper over the past few weeks. The average spread on the benchmark Emerging Market Bond index compiled by J.P. Morgan has widened from about 450 basis points earlier this year to almost 550 basis points yesterday. Other emerging markets, such as Thailand and Korea, have postponed expected international bond offerings until the market stabilises.

Traders in New York said the Russia bond was popular with investors owing to the generous spread over US Treasuries. Other Russian bonds sold off in the secondary markets as investors switched out of old into new paper.

Mirror Group edgy as Springer stays silent on takeover interest

By Cathy Newman and John Gapper

Advisers to Mirror Group, the British tabloid newspaper publishing group, have written to the UK Takeover Panel asking for clarification from Axel Springer Verlag, the German group which said it was considering a bid two weeks ago.

Mirror is concerned about the uncertainty generated by Springer's silence following its statement of interest. SG Hambros, which is advising the group, has asked the panel to put pressure on Springer to clarify its intentions.

On May 22, Springer denied market rumours that it was to make an offer for Mirror, then refused to rule it out, and finally confirmed it was considering a bid. Mirror shares closed 10.5p down at 238p yesterday on disappointment that no bid has emerged.

Mirror is believed to have told the panel that speculation in the press and the markets has caused it difficulty, for example in recruiting staff.

The Takeover Code has a provision that bars unreasonable delays following statements of potential interest. Although a period is not defined, it has extended well beyond two weeks in the past.

It is believed Springer, owner of Bild, Germany's biggest-selling newspaper, wants to choose its moment to launch a bid once the share price has subsided. Mirror executives are unlikely to back an offer of 260p a share, which would value the company at £1.2bn ($1.96bn).

Springer's advisers are thought to be reluctant to be rushed, and it is not likely that the Takeover Panel would insist on a rapid bid.

Further uncertainty has been created by the fact that Leo Kirch, the German media owner, holds a 40 per cent stake in Axel Springer. The future of Kirch Gruppe has been clouded by a collapse of its pay television joint venture with Bertelsmann.

Before Springer's interest leaked into the market, Mirror was holding talks with Trinity, the UK's biggest regional newspaper publisher.

Mirror is expected soon to announce the appointment of Victor Blank, former chairman of Charterhouse Bank, as chairman. A high-profile City character, Mr Blank is seen as having the skills to guide Mirror through the bout of takeover speculation.

14,000 managers apply for early retirement at AT&T

By Richard Waters in New York

More than one out of every four managers at AT&T has applied to leave the company this year under an early retirement plan, many more than originally expected, the US telecommunications company said yesterday.

The news that 14,000 managers had taken up the company's offer of generous pension and other benefits marks the first clear sign that a cost-cutting drive launched this year by Michael Armstrong, the company's new chairman, is starting to have an effect. Most will go on June 30, though some will stay until the end of the year.

Mr Armstrong offered early retirement terms to 46,000 of AT&T's 62,000 non-union employees as part of an effort to slash the carrier's overhead costs. Some 10,000-11,000 were expected to take up the offer.

In spite of the higher level of acceptance, AT&T denied yesterday that the terms of the offer had been made too generous, or that the mass departures would disrupt its operations. "We always said this was a generous offer," it said. "We needed to downsize quickly."

Other companies have seen their efforts at mass job cutting backfire as employees who remain have been unable to plug all the gaps left by their departing colleagues. In one of the starkest cases, Wells Fargo's efforts to cut costs at First Interstate, a rival Californian bank it bought two years ago, contributed to a rapid loss of First Interstate customers.

Bell Atlantic, another telecoms company, is facing possible disruption when 14,000 workers are offered early retirement terms this summer.

Mr Armstrong has said he plans to reduce AT&T's selling, general and administrative expenses to 22 per cent of its revenues, from 29 per cent at present. That would allow the company to turn its large size to its advantage, using natural economies of scale to undercut rival carriers on price.

AT&T had set a target of 18,000 job cuts by the end of next year, in part through normal departures and earlier downsizing plans. The company said it was now a year ahead of schedule. The early retirement scheme did not apply to the company's 500 top executives, a quarter of whom are due to be cut.

FINANCIAL SERVICES DUTCH BANK TO DECLARE GENERALE OFFER UNCONDITIONAL IF IT GAINS 50% OF SHARES

ABN Amro cuts bid acceptance level

By Neil Buckley in Brussels and George Graham in Vienna

ABN Amro said yesterday it would reduce from 60 per cent to 50 per cent the acceptance level at which its $12.2bn bid for Générale de Banque, Belgium's biggest bank, became unconditional.

The comments from Jan Kalff, chairman of the Dutch bank, followed claims from Fortis, the Belgo-Dutch financial services group that has made a rival, $11.1bn, bid for Générale, that it had support from shareholders accounting for 40 per cent of shares.

It also emerged that the confidential opinion of Générale's board, previously understood to favour Fortis, was more mixed.

Attending a conference in Vienna, Mr Kalff insisted ABN Amro's bid respected the wishes of the bank's management, accounting for six of the 28 board members.

"Our approach has never been hostile," he said. "We would never do that. Our definition of hostile is against the wishes of the management."

He also acknowledged that Générale would not meet ABN Amro's usual target of a return of 13 per cent on investments. Returns were projected at 5 per cent initially, rising to 10 per cent in a few years. The bid was being made for "strategic reasons".

ABN Amro's confirmation that "50 per cent plus one vote" was the level at which its bid could be declared unconditional means that will be the target for both sides.

Fortis holds 2 per cent, plus commitments from the bank's main shareholders – made before ABN's surprise bid – to sell their combined 33 per cent. It claims institutions holding another 5 per cent have voiced support.

Belgium's financial regulator confirmed yesterday it was investigating how these expressions of support had been obtained. Though it stressed it had no evidence of wrongdoing, it was ensuring Fortis had not offered a higher price to the institutions – which would oblige it to raise its offer to all shareholders.

Fortis said it had been approached by institutions, not the other way around, and the expressions of support were subject to its raising its bid to equal ABN Amro's.

Générale's directors' opinion, to be published in both prospectuses, judges the offers on three criteria.

For shareholders, directors are understood to have agreed that ABN Amro's bid offered best value.

For staff, they considered the bids "almost equal", but in the long term they expected the Fortis deal would be better. The six management members disagreed, saying ABN Amro gave staff the chance to belong to an international group.

For customers, most directors again considered the bids "almost equal", but management favoured ABN Amro for its bigger international network.

The directors said they would sell their shares to the higher bidder.

Jan Kalff: bid respects wishes of Générale management — Reuters

CCF in talks on Marseillaise

By Andrew Jack in Paris

Crédit Commercial de France yesterday began negotiations on terms for the purchase of Société Marseillaise de Crédit, the state-owned French bank which is being privatised.

The French government announced late on Tuesday that an offer made by Banque Chaix, a subsidiary of Crédit Commercial de France, was the only one that met all the necessary criteria.

The decision comes in spite of initial interest from other French banks, including Société Générale, Banque Nationale de Paris and the Caisse d'Epargne savings network.

The talks under way are expected to include the question of whether the French state will provide a guarantee up to a certain limit to cover any unidentified future losses.

Negotiations will also cover the amount of new capital to be injected by the state ahead of the privatisation, which is likely to be a sum equivalent to the bank's losses for 1997.

Some estimates have put the losses at about FFr3bn ($502m).

The board of Marseillaise de Crédit is expected to meet by the middle of the month to finalise the amount of provisions, which must include new elements for restructuring and the bank's contribution to pension funds for its employees.

The decision by the French government to choose a single buyer clears the way for discussion with the European competition authorities in Brussels on a new capital injection.

It approved a FFr2.9bn state aid package in 1996, which was supposed to be the final aid ahead of a sale.

However, those close to the French negotiations argue there is little in additional sacrifices they can offer to Brussels.

VW and Porsche plan sports vehicle together

By Haig Simonian in London and Andrew Fisher in Frankfurt

Volkswagen confirmed last night it would develop a new sports utility vehicle with Porsche, in a further expansion by VW, Europe's biggest carmaker.

The project, under discussion for months, involves VW and Porsche versions of the vehicle to fill both companies' gap in one of the fastest-growing segments of the world car market.

Porsche, which had previously discussed a similar project with Mercedes-Benz, will sell a high-powered, luxury version, while VW will concentrate on more utilitarian models of the new vehicle, which is expected to go on sale in 2002.

Shares in VW and Porsche rose sharply in Frankfurt yesterday ahead of the news, amid speculation VW would reveal the plans at its shareholders' meeting in Hamburg today. VW shares rose DM63 to close at DM1,518, while Porsche climbed DM275 to close at DM5,450.

Shareholders may also be told VW is in very advanced talks to buy Cosworth, the specialist engines group owned by Vickers of the UK. VW intends to use Cosworth to build engines for Rolls-Royce, the UK luxury carmaker it hopes to buy.

VW will also use the engine group for foundry work and to build engines for Audi, its executive cars subsidiary. In time, Cosworth may also be used to make high-performance versions of engines for other VW group brands.

Total production of the VW-Porsche sports utility vehicle, available in petrol and diesel versions, will exceed 100,000 a year. VW expects to take more than 80,000, while Porsche will take the remainder.

The two companies did not reveal where the vehicle would be built, but an announcement is expected later this year. Speculation has focused on VW's Bratislava plant in Slovakia, or a possible new US factory.

Porsche, which will develop both versions of the vehicle, said it would invest about DM1bn ($561m) in the project. VW did not reveal a figure.

VW may also say more today about its talks with Lamborghini, the Italian sports car manufacturer. Lamborghini has been in discussions about buying V8 engines from Audi. The talks are also believed to have touched on a possible takeover by Audi.

That speculation gathered pace this week after Mycom, the Malaysian group which owns 40 per cent of Lamborghini, told Kuala Lumpur stock exchange it was in talks to sell its holding.

However, a spokesman for Hutomo "Tommy" Mandala Putra, the youngest son of Indonesia's former president Suharto, who owns the majority stake, has so far denied the sale talk.

Sulzer Medica to sell pace-maker arm

By William Hall in Zurich

Sulzer Medica, Europe's leading medical technology company, has bowed to increasing US competition and is to sell its heart pacemaker business which accounts for around a third of its sales and more than 40 per cent of staff.

The Swiss company, which was floated on the stock market last summer, has hired Goldman Sachs, the US investment bank, to explore divestiture of its electrophysiology division, consisting of Sulzer Intermedics and Sulzer Osypka. The companies, which make pacemakers, defibrillators and ablation catheters, had sales of SFr479m ($323m) in 1997 and employed 2,000 staff.

Sulzer bought Texas-based Intermedics in 1988 for $800m in a move which took it into the heart pace-maker business – an industry dominated by Medtronic of the US, which has half the world market. Sulzer said yesterday that as it was only number four in the industry it had to make a large acquisition or divest.

Sulzer Medica said that it was withdrawing from the heart pacemaker business, primarily concentrated in Texas, to concentrate on its orthopaedics and cardiovascular prostheses businesses, areas where it has strong market positions.

One analyst suggested that it could raise $800m from the sale.

Sulzer's decision to quit a high growth business less than a year after it came to the stock market caught the market by surprise. Nevertheless, there have been hints that the division was not living up to management's expectations. John Garcia, president of the electrophysiology division resigned in March as part of a reorganisation and the group's sluggish first-quarter sales figure underlined its disappointing performance.

Sulzer Medica's shares, which were floated at SFr350, have performed poorly since last year's flotation primarily because of concerns that the group was losing the race for technical leadership in areas such as bradycardia pacemakers, which manage slow or irregular heartbeats, and in implantable defibrillators, which reduce the need for open-heart surgery.

Seagram to cement offer for PolyGram

By Alice Rawsthorn

Seagram, the Canadian drinks and entertainment group, expects by the middle of next month to present a formal offer to the shareholders of PolyGram, the Dutch music and film company for which it is mounting a $10.6bn bid.

A fortnight ago, Edgar Bronfman Jr, Seagram chief executive, agreed terms for an outline cash and shares offer for the 75 per cent of PolyGram, owned by Philips, the Dutch consumer electronics concern.

He also unveiled proposals to buy the 25 per cent of PolyGram's shares in public issue for Fl 117 each.

It generally takes a month for an acquiring company to secure clearance from the Securities & Exchange Commission in New York to issue documentation for a formal offer. However, Seagram must also clear the PolyGram deal with the Amsterdam stock market authorities.

Securing clearance in Amsterdam is expected to take longer than New York, because this is believed to be the first time foreign securities will be used to finance the purchase of a Dutch company.

Under Dutch law, Seagram is also obliged to present its offer to trade unions representing PolyGram's Netherlands employees, and to respond to their queries. Seagram hopes to complete this by the time it receives clearance from the New York and Amsterdam stock market authorities.

The proposed merger of PolyGram's record companies with Seagram's Universal Music subsidiary must be also submitted to anti-trust authorities in the US and Europe. Seagram has already filed with the US Federal Trade Commission and European Commission.

Seagram maintains the merger is unlikely to encounter any regulatory problems. However, music industry observers suspect it could run into difficulty in the US, where PolyGram and Universal have a combined market share of 25 per cent, and in France, where they command roughly 38 per cent.

If necessary, Seagram is thought willing to sell subsidiaries of the two companies to avoid the deal being scuppered by anti-trust regulators, as the proposed merger of PolyGram with Warner Music was in 1984.

Seagram has not yet announced the new senior management structure for its enlarged music subsidiary. Doug Morris, head of Universal Music, is tipped to run the new company.

Alain Lévy, PolyGram president, and Roger Ames, head of worldwide music, are expected to leave after the takeover.

NEWS DIGEST

FORESTRY MACHINERY

Valmet operating profits slip 4.7% to FM302m

Valmet, the Finnish forestry machinery and engineering group, yesterday blamed mixed demand for paper and board machinery for a 4.7 per cent fall in profits in the first four months of the year. The company saw operating profits decline from FM317m to FM302m ($55.8m), in spite of a rise in sales from FM3.76bn to FM4.03bn in the period ended April 30. Although pulp and paper prices stabilised in the four months, Valmet said paper manufacturers remained cautious about making investment decisions and were still willing to postpone them.

At the pre-tax level, however, profits rose from FM347m to FM415m, mainly because of a FM104m gain on dividends received and the sale of non-core shareholdings. That helped lift earnings per share by more than 22 per cent to FM3.96. *Tim Burt, Stockholm*

SWEDEN

Green light for euro listings

The Stockholm stock exchange yesterday gave the go-ahead for the country's big multinational companies to list shares in euros at the start of European economic and monetary union (Emu) next year.

Although Sweden is one of four European Union states which have decided to remain outside the single currency from its inception, the bourse said it would offer listing and trading in the euro from January 4 next year.

Among the companies believed to be preparing to switch their listing from kronor to euros are Skandinaviska Enskilda Banken and MeritaNordbanken, the commercial banks, and several of the country's big forestry groups.

Leif Vindevag, a senior stock exchange official, said many of Sweden's largest quoted groups were subject to heavy cross-border stock trading and had a high proportion of foreign shareholders. It would make compelling commercial sense for many of them to switch to a euro listing. *Greg McIvor, Stockholm*

OIL AND GAS

Kvaerner seeks NKr700m savings

Kvaerner, the Anglo-Norwegian engineering and shipbuilding group, yesterday announced a NKr700m ($93.2m) cost-cutting programme in its oil and gas division in a move to improve profitability. The group's oil and gas business, which supplies installations and maintenance equipment for the offshore industry, is expected to reduce costs by NKr250m this year and NKr450m next.

Per Andersen, vice-president of the division, said the programme would lead to cuts among the division's 3,000 contract staff. Under the scheme, the division said it would remove administrative overlaps between its four main operating arms. *Tim Burt*

ITALY

Eni sell-off plan outlined

The Italian Treasury yesterday set out plans for the sell-off of part of its remaining stake in Eni, Italy's oil and gas conglomerate, expected to be the second largest public share offering in Europe this year.

Amid strong indications that it will sell a 12 per cent stake from its remaining 51 per cent in Eni, the Treasury announced it expected to implement the sale over the next three weeks, culminating in the announcement of the offer price on June 27. The sale, expected to be worth about L12,000bn ($6.83bn), is to Italian retail investors, international institutions and Eni employees. The largest tranche is expected to go to the retail side. *James Blitz, Rome*

GREEK TELECOMS

Stet Hellas in $297m offering

Stet Hellas Telecommunications, the Greek mobile telephony operator which is part of the Telecom Italia group, yesterday completed a $297m share offering in the form of American Depositary Shares or Dutch Depositary Receipts.

The company said it decided not to seek a listing on the Athens stock exchange because it would have been required to increase its capital. J. P. Morgan, global co-ordinator, said the issue was substantially oversubscribed.

The offering, which amounted to 15.5 per cent of Stet Hellas's equity, reduced the Italian shareholding from 74 to 59 per cent. *Kerin Hope, Athens*

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ELECTRONICS MULTIMEDIA AGE TARGETED

Sony plans PC launches for Europe

By Michiyo Nakamoto in Tokyo

Sony, the Japanese electronics group, plans to expand its personal computer business by launching PCs in several European countries this year.

The latest launch in Europe, of the Vaio series, will give Sony a presence in the three main regional PC markets of the US, Japan and Europe.

Sony re-entered the PC market two years ago with the introduction of Vaio in the US, followed by Japan last June.

Although it does not reveal sales figures, analysts believe its Vaio notebook is among the top-selling in its sector in Japan, where consumers have taken to its sophisticated design.

Masashi Kubota, industry analyst at ING Barings in Tokyo, said the notebook PC resembled a high-end consumer product, rather than a PC and its retail price of about Y200,000 ($1,440) helped account for its popularity. In the US, the superslim Vaio 505G retails for about $1,999.

Analysts point out that Sony is not likely to be looking to the PC sector as a key to its operations. "Sony believes it needs PC technology and expertise for the time when audio-visual products and PCs merge as multimedia products," Mr Kubota added.

The company has expertise in mass production of audio-visual products and components but is weak in networks, PCs and software. "If it wants to be a leader in the age of multimedia it needs to strengthen those areas," Mr Kubota said.

It recently announced a deal with Microsoft to develop technologies to link PCs and consumer electronics products and agreed with Sun Microsystems to use and distribute Java, the computer language. This week, Sony took a 6.7 per cent stake in JustSystem, which makes Japan's most popular word-processing software.

Mr Kubota said while Sony would have difficulty overcoming its image as a consumer products maker in Europe, it was likely to be more interested in building a presence in the European PC market for the multimedia age, than in mass PC sales.

Shiseido keeps a foot in both camps

Cosmetics group aims to please investors and respect tradition, says **Bethan Hutton**

In 1872, when Japan was just opening to the west, a new pharmacy in Tokyo's Ginza district chose to embrace western medicine rather than selling the usual *Chinese-style* herbal remedies. More than a century later, Shiseido, the company which grew out of that pharmacy, is still embracing westernisation.

By Japanese standards, Akira Gemma is an overseas investor's ideal company president. As head of Shiseido, one of the world's largest cosmetics companies, he is following a distinctly un-Japanese, investor-friendly strategy: setting rising targets for return on equity, stressing high standards of disclosure and planning a share buyback.

Shiseido is now one of the Japanese companies most popular with foreign investors. About 24 per cent of its stock is held outside Japan and it maintains investor relations offices in the US, UK and Switzerland.

Shiseido is an internationally known brand, with sales in more than 56 countries. By 2000, it aims to be the world's number one cosmetics company and to generate a quarter of its sales outside Japan. This push for globalisation extends to management values.

"I think that up to now, the Japanese management stance has been somewhat different from the standard prevailing in the west," says Mr Gemma, rather understating the gulf in values which recently led one company head to say that profits should not be a Japanese manufacturing company's main goal.

"I think that on the whole international shareholders seem to be somewhat more intent on getting information in line with global standards – return on assets and equity, efficiency of management of assets, and so on. They are also more persistent about questioning us about investments that do not seem to be paying their way," says Mr Gemma.

Investors disappointed by a decline in return on equity from 5.1 per cent to 4.2 per cent for the year just ended may be cheered by Mr Gemma's target of 7 per cent within three years, eventually growing to 10 per cent.

Occasionally, however, the internationalised, investor-friendly image slips a little – for example when he is asked about Shiseido's toiletries division.

Cosmetics are Shiseido's core business and overseas the company is known as a maker of high-quality, high-priced cosmetics and perfumes. But in Japan, Shiseido spans the market range, down to shampoos, conditioners and even sanitary towels. Figures for the latter business, which Shiseido calls its fine toiletries division, are less than impressive. The operating margin for the last financial year was 0.3 per cent; five years ago it was 3 per cent, while the cosmetics division last year produced a margin of 10.4 per cent.

"The characteristics of these businesses are totally different, so I think a spin-off would be good for reducing labour costs and improving operating profits," says Yuji Fujimori, analyst at Goldman Sachs in Tokyo.

Likewise, Shiseido's return to the pharmaceuticals sector 11 years ago does not appear to make business sense. Mr Gemma's argument is that the fine line between some skin care products and pharmaceutical products means that research into one can often turn up innovations in the other. Others might respond that occasional synergies are not enough to justify investment in a sector where Shiseido has no competitive edge. The company would also have little to lose by withdrawing from its food and soft drink businesses.

However, an unprofitable fitness club chain was liquidated last year, resulting in a loss of Y2.1bn ($15m), and the liquidation of a finance arm caused an extraordinary loss of Y17.8bn.

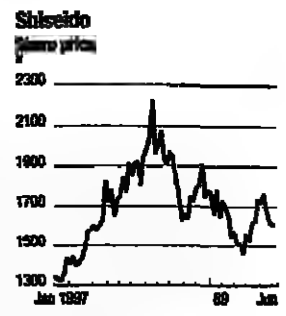
Meanwhile the company is expanding in more profitable directions through organic growth and acquisition. Over the past two years, for example, Shiseido has bought the Helene Curtis salon businesses, first in the US then Japan.

Further acquisitions are likely if Shiseido is serious about achieving its goal of sales of Y800bn by 2001. Sales last year reached Y621bn, 14.9 per cent outside Japan. Mr Gemma says that growth of existing businesses could boost overseas sales to Y120bn by 2001, but the extra Y80bn needed to reach the target would probably have to come from acquisitions.

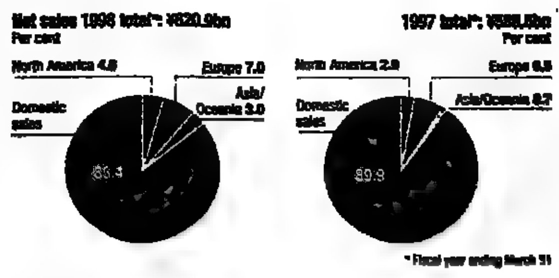
The company last month opened a store in New York that sells only products in Shiseido's new SS range.

Last year it launched the cheaper Za brand in several Asian countries.

Shiseido's strategy of offering different ranges in home and overseas markets appears successful. But if globalisation is really the goal, it may be less feasible to promote separate management values.




Akira Gemma, president



Performance

	Fiscal 1998	Fiscal 1997
Net income:	¥18.9bn	¥19.1bn
-per share	¥49.15	¥47.55
-fully diluted, per share	¥38.67	¥47.35
Key ratios:		
-return on equity	4.2%	5.1%
-ordinary income/shareholders equity	5.2%	6.9%
-ordinary income/net sales	6.2%	7.0%

Source: Datastream/ICV; company

Dublin bids to stem overseas drift of its technology stocks

Starved of new issues, Ireland hopes to encourage more companies to seek dual listings, writes **John Murray Brown**

Irish technology companies have never needed persuasion regarding the merits of a listing on Nasdaq.

Much to the chagrin of the Irish stock exchange authorities, the Washington-based electronic exchange has lured away many a promising Irish company.

That may be changing.

In a bid to encourage domestic listings, a number of Dublin brokers are taking on technology analysts – a breed unheard of a year ago.

Investment Bank of Ireland, Bank of Ireland's corporate finance arm, has gone one step further and announced a formal link with US investment company Donaldson Lufkin & Jenrette in the hope of tapping into the demand for dual listing services.

Richard Keatinge, IBI managing director, estimates that up to 12 Irish-owned technology companies could seek a dual listing over the next two years.

With Nasdaq handling about 400 initial public offerings a year, this looks like small beer, but for the Dublin exchange, starved of new issues, this could provide a catalyst for growth.

With its deeper research base, greater familiarity of the investment community, and less risk-averse investors, Nasdaq remains a key market for any young technology-based company, hungry for investment capital, and ready to float equity.

More importantly, the ratings enjoyed by US technology stocks dwarf those on European markets.

"With 80 per cent of our products sold in the US, from a customer point of view, I don't think there is any question what market we should be on," says Bill McCabe, chairman and founder of CBT Technologies, a leading provider of interactive education software with around 250 titles used by over 1,000 leading computer companies.

CBT, which was the first Irish technology company to list on Nasdaq, is followed by seven leading US investment banks.

But on Nasdaq, CBT is one of 6,000 companies.

Brokers point out that were it to list on the Dublin exchange it would account for 2.5 per cent of the Irish index.

"We're thinking about it all the time," says Mr McCabe coyly.

IBI believes there is now a strong case for a dual listing for new companies seeking to tap the equity markets. The Nasdaq quotation is part of the strategy.

"In the US they tend to rate technology companies on turnover. What you're essentially doing is betting on the future," says Mr Keatinge.

This is important for companies which may still be in the research phase. But Enrique Curran, analyst with NCB, Ulster Bank's broking arm, says many US buyers are "momentum investors" – buying for the short term.

With its deeper research base and less risk-averse investors, Nasdaq remains a key market for young technology-based companies

He says Irish and European fund managers tend to hold stock, which helps to stabilise the share price.

Mr Keatinge points to the example of Iona Technologies, a campus company spawned from Dublin's Trinity College.

"It was listed at $24. It dipped to $19. After the dual listing, the price is back up at around $35," he says.

Mr Keatinge says unlike Israel, where there would be about 30 IPOs on Nasdaq a year, Irish entrepreneurs have traditionally been reluctant to part with equity.

He says given the cost of listing, it probably does not make sense for any company with a turnover of less than $50m.

IBI estimates that, as a spin-off from the dramatic increase in the US and multinational presence in the software market in Ireland, there are now around 300 homegrown companies – 50 of which are big enough to go public.

IBI would seek to identify the companies, while DLJ handles the technical aspects of the listing. Fees would be split.

Says Mr Keatinge: "The idea is that we are on the ground. We know the companies and we can do the donkey work."

But the strategy for IBI is also defensive – reflecting the concern that unless it moves to counter the growing threat of US investment banks hawking their wares directly, it could get cut out altogether from this lucrative stream of commission business.

INVESTMENT BANKING SALOMON SMITH BARNEY MAY SEEK TO BOLSTER EUROPEAN PRESENCE

Travelers, Nikko look for partner

By Clay Harris in London and Tracy Corrigan in New York

Travelers Group, the US financial services company, and Japan's Nikko Securities, its new partner in an investment banking joint venture, believe its European presence will need to be enhanced, possibly through an acquisition.

Both sides agree that Salomon Smith Barney, Travelers' investment banking subsidiary, is not strong enough in Europe, according to a senior executive of one of the companies.

This suggests that the appetite of Sandy Weill, Travelers chairman, for expansion has not been sated by the planned merger with the US bank Citicorp to create a global financial services supermarket, Citigroup.

"I have recommended to the Travelers side that we should find a good partner in Europe," Masashi Kaneko, Nikko president, told Japan's Kyodo news agency yesterday.

The issue was raised and consensus was reached during talks leading to the joint venture and Travelers' agreement to invest $1.6bn for a 25 per cent equity stake in Nikko, according to an individual familiar with the negotiations.

Salomon Smith Barney and Nikko declined to comment.

While Travelers' purchase of Salomon for $9bn, announced last September, was widely heralded as the globalisation of Travelers' previously domestic portfolio of businesses, improving Salomon's underperforming European operations has been seen as an important task.

At the time of the merger announcement, Jamie Dimon, then chairman and chief executive officer of Smith Barney, said: "Salomon has already built a pretty big platform overseas. We are going to keep on building it." Salomon has said specifically that it plans to build its European equities business. Its greatest strength is European bond trading, which will shrink when the euro is created.

The combination of Salomon with Smith Barney's strong domestic presence has already yielded benefits, lifting Salomon to number two in US mergers and acquisitions in the first quarter, according to IFR Securities Data.

In Europe, it ranks 11th for completed deals in the year to date, up from a combined position of 18th in 1997 as a whole.

But acknowledging the desire to expand in Europe does not solve the problem of finding a firm that fits the bill, an executive familiar with the discussions said.

While no target can be ruled out given the size of the new Citigroup, it might consider buying an investment bank from a European universal bank or forming another joint venture.

CSFB is learning to make the most of its assets

An outdated structure and in-fighting have been replaced by a global and equity-based focus, writes **Tracy Corrigan**

Credit Suisse First Boston, the global investment banking business owned by Switzerland's Credit Suisse, has always had a lot going for it.

It is the only European company to have bought a large, well-established US investment banking business with a leading position in US underwriting well ahead of the wave of globalisation which has swept the industry in the past 10 years. Unlike its European rivals, it already convincingly straddles the US and European markets and is a familiar name in London, New York and Tokyo, in addition to commanding a powerful retail franchise in its home market of Switzerland.

But in the past some of these advantages have been squandered.

In-fighting between rival investment bankers in London and New York and an inefficient corporate structure under the broad Credit Suisse umbrella have held back the development of the business.

Furthermore, its traditional strength lies in the less profitable fixed income side of the business, and it has been slow to develop its equities operations, particularly in London where its history as the leading eurobond house became a handicap, when margins in that business shrank.

But its January 1997 restructuring and last year's acquisition of the Barclays de Zoete Wedd European equities business from Barclays may mark the dawning of a new era.

Allen Wheat, the firm's chairman and chief executive officer, says that BZW's equities people are "fantastic", and the business is "on a very steep climb back" after the turmoil caused by Barclays' announcement that it planned to sell the business last year.

Recent CSFB deals for GEC Alsthom, Ciba and Courtaulds are "deals that we would never have gotten" prior to the acquisition.

He also says that after the axing of 15 per cent of the staff and some other departures, more than 90 per cent of the BZW equities personnel signed retention agreements, and the amalgamation of back office systems has been completed.

The rationale for the deal was that CSFB urgently needed a stronger presence in equities and in European investment banking advisory work.

"If you hire a banker, it's two years before you get a pay-back. BZW had a lot of very good people, especially in its UK business. We don't think you can build [that type of business] from scratch now." Mr Wheat frankly admits that before the acquisition CSFB's "footprint in Europe was just too small on the banking side" and the firm's position in equities – it ranked fifth last year in global underwriting – was "not good enough". On the other hand, CSFB's capability in "trading is very good in bonds and equities. We don't have to acquire someone to teach us how to trade."

The canny Mr Wheat also remarked that the "price was very attractive" at $150m – a widely shared view, attributed by some analysts to Barclays' decision to put the business up for sale publicly.

More broadly, CSFB's 1997 restructuring, while not the first in its history, finally tackled both organisational problems and the lack of capital.

"There was a huge mismatch of who was making the money and who was getting the capital," says Mr Wheat. The organisational structure was "outdated", he admits, managed along geographical, rather than product, lines – a structure abandoned by other firms a decade ago – and the equity totalled just $1.8bn (most firms of comparable size and scope have two or three times that amount).

"We had a very good '95 and a great '96 and we started saying [now] we have gotten our act together, we need capital," says Mr Wheat. "The bank at the time came to grips with the fact that it had a group of people managing a very diverse portfolio with a very antiquated system."

The large amount of capital tied up in bank lending, with its relatively small margins, was cut from $3.25bn at the start of 1997 to just under $2bn by the end of the year. Mr Wheat hopes that will be further reduced to around $1bn. This has allowed capital to be redeployed to the firm's highly successful fixed income business, which had been "starved of it".

The reallocation of capital and restructuring of the business on product lines has allowed the firm to take advantage of cross-selling opportunities which had previously remained unexploited. These days, strategic decisions on which sectors to target are implemented in, say, both corporate lending and equity capital markets. "When the stars are aligned, our hit rate is great," says Mr Wheat.

Allen Wheat: CSFB is 'on a steep climb back'

Overall, Mr Wheat says, the firm has made "tremendous strides" in the four or five product areas it is targeting and already has bulge bracket status – on a par with Morgan Stanley Dean Witter and Merrill Lynch – in several.

Its revenues are already comparable with some of its largest competitors', despite CSFB's greater emphasis on lower-margin fixed income business. But has the intensifying pace of financial services consolidation, illustrated by the recent merger of Travelers and Citibank, as well as by that of its arch-rivals in its home market, Union Bank of Switzerland and Swiss Bank Corporation, upped the ante again?

"It certainly does keep your attention," he says mildly, "but we understood we were doing this in a consolidating market."

While he does not rule out further acquisitions – the firm is currently one of those in talks to buy Garantia, the Brazilian investment bank – he says that for the moment "[equities] was the gap we wanted to fill, but we are looking at all the options".

Philip Services to sell metals activities

By Scott Morrison in Toronto

Philip Services has put on the block all its scrap-metal operations, which accounted for more than 60 per cent of 1997 revenues.

While the troubled Canadian recycling and waste management group said the sale would help it pay down substantially its US$1.1bn debt and restructure its credit facility, analysts said the move was little more than an attempt to appease creditors and investors.

The company said it had engaged Salomon Smith Barney to help sell operations in Canada, the US and the UK.

Philip did not identify buyers for its metals division and industry observers suggested few would be interested in the low-margin operations. "It's not going to be easy to sell the scrap division and if they do, it won't make much of a dent in the debt," said James Sbrolla, an investment adviser at Canaccord Capital.

Troubles in the metals division contributed to a US$95.8m loss in 1997, as well as an unexpected first-quarter net loss of US$565,000. Felix Pardo, recently appointed chief executive, said the sale would also eliminate exposure to commodity price risk and cut working capital needs.

Philip said the sale would amount to a shift back to its core waste management business. The company grew quickly in recent years through acquisitions that enabled it to become one of the top waste management groups in North America, with 1997 revenues of more than US$1.75bn. It spent US$1.3bn to acquire 30 small companies in 1997.

It was a stock market darling until investor confidence was shaken by revelations that it had suffered trading losses in its copper division and that it had not been able quickly enough to implement cost-cutting measures to achieve efficiencies from new operations.

Its fortunes began to unravel after it made a friendly US$1.8bn bid for Safety-Kleen, a little known US oil recycler. Philip became involved in a takeover battle that was won by Canada's Laidlaw group.

Its share price, which peaked at C$27.90 last September, rose 40 cents in midday trading to C$6.40.

NEWS DIGEST

TELECOMMUNICATIONS

Newbridge Networks sees shares fall on C$18m loss

Shares of Newbridge Networks fell 5 per cent yesterday – from C$41.80 to C$39.30 – after the Canadian telecommunications networking equipment maker reported a C$18m (US$12.4m) net loss for the year ended April 30 and announced a senior management change in an attempt to restore the company's financial health. The loss, equivalent to 10 cents a share, compares with earnings last year of C$157m, or 92 cents. In the fourth quarter, net earnings were C$3.6m, or 2 cents a share, reflecting a one-off C$26m write-down on R&D costs at its Radnet subsidiary. Earnings before the charge fell 52 per cent to C$32m, or 18 cents a share, from C$67m, or 39 cents.

The results were in line with analysts' expectations following a 73 per cent fall in earnings in the third quarter. Newbridge is struggling to bolster sales of its new-generation asynchronous transfer mode (ATM) equipment, in an attempt to offset declining sales of its older products. Terence Matthews, chief executive, said the past year had been challenging for the company but added the ATM market was extremely robust.

Alan Lutz, formerly of Compaq Computers, Unisys and Northern Telecom, was appointed president and chief operating officer, replacing Peter Charbonneau, who was named vice-chairman. **Scott Morrison, Toronto**

COMPUTERS

Tech Data advances 27%

Tech Data, the US group which became Europe's largest computer distributor in April after the purchase of Computer 2000 of Germany, yesterday reported a 27 per cent rise in its first-quarter net income to $23.1m. The group, which distributes computers to resellers, which add software and peripherals before supplying them to the corporate market, increased earnings by 12 per cent to 46 cents a share, in line with analysts' forecasts. Revenues jumped by more than 50 per cent to $2.2bn, reflecting the initial first-quarter contribution from Macrotron, another large German distributor, purchased last July.

International sales more than doubled in the three months to April 30, and accounted for 28 per cent of group revenues. Analysts expect this to rise to almost 40 per cent after the Computer 2000 acquisition. Domestic sales were also strong during the quarter, rising by a third. Computer peripherals saw sales rise 71 per cent, while computer systems turnover grew by more than half. **Christopher Price, San Francisco**

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COMPANIES & FINANCE: ASIA-PACIFIC

FINANCIAL SERVICES COLLAPSED INVESTMENT BANK'S 40 PER CENT STAKE IN BROKERAGE BOUGHT BY MAJORITY SHAREHOLDER

Peregrine liquidator agrees Philippines sale

By Louise Lucas in Hong Kong

The provisional liquidators of Peregrine Investments have secured the sale of the collapsed Asian investment bank's stake in its Philippines venture. This comes one week before creditor meetings will start to detail total liabilities and recovered assets.

The sale of Peregrine's 40 per cent interest in the Philippines operation was cleared by the courts yesterday: the price is not being disclosed. Sales of other regional activities are expected to follow.

David Hague of Price Waterhouse, one of the joint provisional liquidators, said the disposal was made "at a full market price which realises substantial amounts for creditors of the Peregrine Group".

The buyer is ATR Group, the current majority shareholder which is owned by the management of the Philippines operations. However, the provisional liquidators said it was not a management buyout.

The Philippines operation, which employs around 60, focuses on brokerage activities, and also carries out some corporate finance. Sales of activities in Thailand and Taiwan are expected to follow shortly.

Mr Hague said: "Further disposals of other regional operations of the Peregrine group are in the course of advanced and active negotiations and the provisional liquidators expect those negotiations to be finalised in the next few weeks.

"These are also expected to bring in significant proceeds for the benefit of creditors."

Up to 7,000 creditors are expected to attend a series of meetings for some of the group companies taking place in Hong Kong next week, kicking off with Peregrine Derivatives on Wednesday.

The meetings, which come four months after the collapse of Peregrine, will confirm the appointment of liquidators and establish a committee to work with them.

Liquidators are also being appointed in other jurisdictions, working in parallel with Price Waterhouse in Hong Kong to prevent creditors seeking to grab assets in other parts of the world – a ploy which has already been attempted by one aggrieved creditor who sought to take action in the US.

For its part, Price Waterhouse is reinforcing its team with the addition of Colin Bird, a London-based senior client partner and the UK lead corporate recovery partner on financial institutions. The appointment of Mr Bird is a reflection of the international impact of Peregrine's demise.

Next week's meetings will also attempt to give an overview of the events that led to Peregrine's collapse and are due to include a question-and-answer session at which the former directors should be present.

Indian industry hit by budget lottery

The government seems to have picked its winners and losers, writes **Krishna Guha**

India's budget has upset projections of corporate profits, producing a clear list of winners and losers from its spending plans, tariff increases and new excise duties.

Analysts say the main winners are in the metals, cement and petrochemical industries; vehicle manufacturers, consumer goods and tobacco companies lose out. Software companies also gain, while pharmaceuticals suffer.

The sectors to be hit by the budget include many that have outperformed the market in recent months and form the core holdings of most foreign investor portfolios.

Only a handful of "fundamental" investors hold big stakes in India's cement and steel industries.

One senior banker in Bombay says the government appears to have decided to "share the pain" across the corporate sector, rather than let industries such as steel go to the wall, with potentially disastrous consequences for the banking system.

All companies stand to gain from moves to relax the hand of "inspector raj", speed up investment approvals, withdraw investment from public sector enterprises and reform land laws. But the industries that will suffer most from higher taxes – with the exception of vehicles – are those regarded as among India's most promising growth sectors.

Investors are concerned that the government has chosen to tinker with the tariff structure to favour some industries – and some companies – at the expense of others, picking winners and determining how to share out the costs of a downturn rather than letting the market decide.

"The reforms are over," said Ashok Desai, an economist. "We have returned to the normal Indian political game." Investors privately express fears that sector-by-sector industrial management could lead India down the path of "crony capitalism".

Talk of favouritism may be overdone. But tinkering in an effort to assist struggling companies does introduce anomalies.

Hard-hit vehicle companies get a further dose of taxes, depressed capital goods manufacturers get no specific help, while some highly profitable petrochemical, aluminium and software companies receive assistance.

And even those sectors that are winners on paper from new taxes will suffer from a reduction in the ability to offset excise duties on inputs against sales taxes and a jump in import costs, which may be difficult to pass on to the consumer.

Reliance, India's biggest petrochemicals company, will probably be a winner. It will profit from a cut in the tariff on paraxylene, its main import, although other inputs will be more expensive.

Indian Petrochemicals should benefit too. Hindalco, the country's number one aluminium producer, like Reliance, is highly integrated and profitable. It will be further sheltered from import competition and if demand increases, it will be able to raise prices at the expense of downstream companies and could gain from investment in power.

Tata Iron and Steel, India's biggest private sector steel producer, will suffer from higher costs of imported coal. But the new 8 per cent duty and a hike in duty on cold rolled steel will offer protection against cut price competition from Korea. Steel Authority of India may benefit too.

However, it will be a long haul out of recession. Larsen and Toubro, the country's leading construction group, will benefit if infrastructure spending boosts demand for its cement, engineering and capital goods businesses. Higher tariffs raise the cost of steel and other inputs, but offer some protection against east Asian capital goods.

Associated Cement Companies, India's biggest producer, whose profits collapsed last year, will benefit if infrastructure spending takes off. Gujarat Ambuja may also gain, but it will bear higher costs from imported coal.

Housing Development Finance Corporation, the country's biggest provider of home loans, should benefit from greater spending on housing and the repeal of the urban land ceiling act.

Infosys, the country's leading software company, will profit from the ability to retain staff through stock options linked to dollar denominated securities and lower tariffs on computer components.

Companies that lose most from higher taxes include: Tata Engineering and Locomotive. India's biggest vehicle company will be hit by higher tariffs on steel, an increase in excise duty on utility vehicles and a new petrol tax, on top of the 8 per cent additional duty.

Mahindra and Mahindra, the country's leading tractor and jeep manufacturer, has been hit by tough markets. It will suffer very badly from the same tax increases. Its joint venture with Ford will be hit by higher tariffs on imported components, which will also affect other foreign car manufacturers such as Daewoo India.

Indian Tobacco Company, the leading cigarette manufacturer, will suffer rather less from higher tobacco taxes. Increased import duty is scant relief as its main competition is from black market imports.

Hindustan Lever, the consumer goods company, will be hit by the imposition of excise duty on branded food products, though its distribution network should help sustain growth.

Tax increases will also hurt other consumer goods companies, including Cadbury India. Tata Tea, the independent tea company, gets hit by excise duty on packaged tea, which accounts for two-thirds of its business. This may effect the tea industry's efforts to move upmarket.

Ranbaxy, a leading pharmaceutical company, imports 70 per cent of its raw materials and will suffer from additional duty, as will other pharmaceutical stocks, including multinational companies such as Hoechst Marion and Glaxo.

Budget style: Yashwant Sinha, Indian finance minister. AP

Japanese to trim service stations

By Alexandra Harney in Tokyo

Japan's big five oil companies are to close almost one in six of their service stations in the next three years to improve profitability. The move marks the first industry-wide attempt to cut capacity since deregulation was introduced two years ago.

Plans announced yesterday would eliminate 10,000 of the 59,000 service stations, of which 70 per cent are estimated to be operating at a loss. Competition, combined with record low crude oil and retail petrol prices, has squeezed profit margins for Japan's oil companies, while deregulation has allowed self-service stations for the first time.

With profits down across the industry last year, oil companies have been opening self-service stations, closing refineries and reducing employment to raise margins and cut costs.

Nippon Oil, the largest oil distributor with 16.2 per cent of petrol sales last year through 10,000 stations, said it planned to shut some stations but declined to specify the number or timing. Idemitsu and Showa Shell Sekiyu, which each own about 7,000 stations, aim to close about 30 per cent.

Cosmo Oil has already shut nearly 30 outlets this year and aims to eliminate up to 1,000 over the next two years. The closures will displace more than 3,000 service station workers, the company said. Japan Energy estimates it will close about 16 per cent, or 1,000 of its 6,079 stations. Mitsubishi and General, the smaller distributors, each hope to close about 25 per cent.

The companies' plans may eventually put a brake on the industry's shrinking margins by stabilising retail petrol prices, which have fallen 19 per cent over the past three years. However, the costs in closing stations will dent profitability in the short term, analysts said.

"Because of the need to give financial incentives to these stations to close, the first several years I expect the oil companies will suffer because of the expenses they incur," said Mizue Hosokawa, oil analyst at SBC Warburg in Tokyo.

Telco hit by sector slowdown

By Krishna Guha in Bombay

Profits at Tata Engineering and Locomotive, India's biggest truck and car manufacturer, fell 67 per cent last year, confirming fears that India's vehicle industry is suffering a slowdown.

Telco said the latest figures for April showed the downturn had worsened further this year. Sales of medium and heavy commercial vehicles fell 72 per cent in April, while light commercial vehicles were down 17 per cent.

India's budget, announced on Monday, contained more bad news for Telco. Higher import tariffs on steel, higher excise duties on utility vehicles and a petrol tax are likely to hit profits.

The company's future will depend more than ever on the success of its new small car – recently unveiled at the Geneva motor show. Analysts say that if this gamble fails, Telco will be in deep trouble.

Some analysts say, however, that while India's small-car sector is less congested than the mid-range segment, Telco will still face competition from Hyundai, Daewoo and Fiat, as well as from the industry leader, Maruti, a joint venture between the government and Suzuki.

"It is an outrageous waste of shareholders' money," said the head of research at one foreign investment bank in Bombay.

He said the small-car sector also faced a slowdown, fierce competition and price-cutting.

In the year to March 31, Telco's pre-tax profits fell from Rs10bn to Rs3.3bn ($79m), on sales down 27 per cent at Rs73bn.

Telco blamed the slump on poor demand for freight, which depressed its core truck business.

"Lower freight rates, coupled with higher input costs, severely affected the profitability of truck operators, causing them to postpone vehicle purchases," it said.

Telco also lost market share. Sales of heavy commercial vehicles fell 43 per cent, against an industry average of 39 per cent, medium commercial vehicles by 43 per cent against 38 per cent, and light commercial vehicles by 26 per cent against 24 per cent.

The company was forced to cut production to reduce inventories. Tough control of expenses held costs at Rs65bn, down 25 per cent.

Telco was also squeezed by the costs incurred in modernising its plants and expanding into utility vehicles and passenger cars. Interest costs rose 26 per cent to Rs2.7bn, while depreciation was up 24 per cent at Rs2.6bn.

UEM plans to sell 20% of Plus

By Sheila McNulty in Kuala Lumpur

UEM, the Malaysian toll-road operator, is finalising the sale of about 20 per cent of its wholly owned Plus subsidiary to cut debt, estimated to stand at around M$3.6bn (US$922m).

Ramli Mohamad, managing director, said: "We are committed to dispose of some assets to reduce our level of indebtedness." He declined to say exactly how many shares would be sold, at what price, or to whom. Details are expected within about a month.

Analysts have long expected UEM to restructure after it was forced to borrow M$2.4bn to buy a 32.6 per cent stake in Renong, its ailing parent.

"That's when it got difficult," said Ben Chan, research manager at SG Securities.

Before that, he said, UEM's debt was linked to specific projects, and therefore managed by sufficient cash flow.

Mr Ramli said UEM's creditors had indicated they would refinance its borrowings if the company could come up with an undisclosed amount first. "We are trying to raise that amount," he said. The company wants to do that without losing control of Plus, which generates cash through its toll operations.

Despite Plus's contribution to UEM, analysts said it made sense for UEM to sell the stake to reduce its debt.

UEM's purchase of the large stake in Renong was widely seen as a politically sanctioned forced bail-out of a heavily indebted parent company by its subsidiary. Renong has been linked to the United Malays National Organisation, the nation's dominant political party.

The deal upset investors, particularly after the authorities granted a waiver to UEM, excusing it from having to make a general offer for the remaining shares of Renong.

Regulations required the general offer because of the size of the stake UEM was purchasing.

Investors abandoned the share market when the waiver was first announced in November, leading the authorities to revoke it. But they later reinstated the waiver, forcing a second round of selling.

NEWS DIGEST

SOUTH KOREA

Hyundai halts production of chips to ease glut

Hyundai Electronics has temporarily stopped making computer memory chips to help ease a global glut and shore up falling chip prices.

The move was expected to be followed by Samsung Electronics and LG Semicon. The three South Korean companies supply 40 per cent of the world's D-Ram memory chips.

Hyundai said its plant outside Seoul would remain idle until Tuesday. The company normally produces 19m 16-megabit D-Ram chips and 8m 64-megabit D-Ram chips a month, or 10 per cent of the world supply.

"We hope that our decision will encourage other chipmakers around the world to follow suit," Hyundai said. Samsung Electronics, the world's largest chipmaker, said it was also considering cutting production. LG Semicon too has cutback plans but refused to disclose details. **AP-DJ, Seoul**

SECURITIES

Softbank in on-line venture

Softbank, Japan's largest software distributor, is to offer an on-line securities trading service in Japan through a joint venture with E-trade, the US internet brokerage group. The joint venture company, to be established later this month, is expected to begin operations in 1999.

Softbank would hold 58 per cent equity stake and E-trade 42 per cent in the joint venture, which would be capitalised at Y2.7bn ($19m), the company said.

The merger is the latest in a series of acquisitions for Softbank, which acquired MAC, the Japanese asset management company last month, and Ziff-Davis, the US information technology group, in 1996. Last year, non-consolidated net earnings at Softbank rose 12.3 per cent, from Y23.1bn to Y26.3bn, on sales up 4 per cent to Y205bn.

The timing of the new company's entry into the market would allow it to benefit from Big Bang financial reforms to deregulate commissions on sales of securities scheduled to take effect next year, analysts said. In the current year, the merger appears unlikely to affect profitability. Softbank shares closed down 1.9 per cent, or Y100, at Y5,220, in a falling market. **Alexandra Harney, Tokyo**

TELECOMMUNICATIONS

NTT plans Docomo listing

The president of NTT, Japan's largest telecommunications group, indicated yesterday that Docomo, its cellular phone subsidiary, was likely to be listed on the stock market within the year and expressed hopes that the government would release its 65 per cent holding in NTT within the same period.

Junichiro Miyazu confirmed NTT was looking to conclude Docomo's IPO this year. The cellular phone company, which is the largest in the country, has been a big profits generator for NTT, which has suffered from a downturn in its traditional fixed-line businesses. **Michiyo Nakamoto, Tokyo**

TRANSPORT COMPANY'S £388M AHEAD OF EXPECTATIONS, AIDED BY PROPERTY PROFITS AND LOWER PROVISIONS

Railtrack plans to upgrade network

By Andrew Edgecliffe-Johnson

Railtrack, which owns UK rail network, announced a 12 per cent rise in profits to £388m ($636m) yesterday and said it would shift investment plans away from signalling and infrastructure renewal schemes and towards enhancements of its network.

The full-year results, which coincided with the government's statement on the Channel tunnel rail link, were slightly better than most analysts expected. They were helped by higher than expected property disposal profits, and by a £14m drop in the company's provision for asset maintenance.

The increase in pre-tax profits for the year to March 31 came despite a 30 per cent rise in investment spending to £1.25bn. Sir Robert Horton, Railtrack's chairman said this year's investment plans amounted to £1.45bn – a further 18 per cent advance.

Over the next 10 years, he added, the company will spend £3.1bn to upgrade the network – £1.2bn more than forecast a year ago. The figure forms part of the company's plan to invest £17bn over 10 years, which remains unchanged.

Sir Robert, who said that the company was £400m ahead of the investment programme agreed with its regulator, added that this year's investment programme had been "reconfigured to emphasise enhancement schemes and to achieve performance improvements."

He cited the scale of the investment programme as one reason why the passenger delays attributable to Railtrack improved by just 1 per cent last year, compared to a 38 per cent advance over the previous 12 months.

The slower rate of improvement also reflected the fact that Railtrack witnessed a 5 per cent rise in passenger traffic last year, as 50m more passenger journeys were made. It also saw a 12 per cent recovery in rail freight traffic, after many years of decline.

The trend towards greater use of the rail network would accelerate, he added, due to schemes such as the new link between Paddington station and Heathrow airport and the upgrade of the West Coast Main Line.

Chris Tarry of Dresdner Kleinwort Benson is upgrading his forecast for the company slightly, given the higher property profits and the lower asset maintenance plan charge. Railtrack was showing improvements in efficiency and accountability, he added.

Lex, Page 14

Mystery surrounds Agatha Christie sale

By David Blackwell

A tale of mystery worthy of Agatha Christie's famous detective Hercule Poirot unravelled yesterday around the disposal of the rights to her body of work.

Many of the classic ingredients were there – the select gathering at a London hotel, an unexpected guest and hints of lost correspondence.

Booker, the cash and carry group, was until yesterday the unlikely owner of 64 per cent of Agatha Christie Limited. Miss Christie's relatives own the remaining 36 per cent.

At Booker's annual meeting in a stifling room near Victoria station the board was preening itself on the successful completion of the sale of the stake only a day after announcing that all its peripheral businesses were on the block.

But a distinguished figure rose from his seat and claimed to be willing to pay double the £10m sum achieved. Shareholders might like to know, he suggested, why the board had preferred the lesser sum.

Jonathan Taylor, Booker chairman, was flummoxed. Such an offer for Agatha Christie had never been put before the board, he said as the disgruntled figure swept out of the hall.

Outside the meeting J. David Harris, a private Booker shareholder, would say only he had been corresponding for a year with Booker about Agatha Christie and that he represented "a very substantial entertainment corporation".

John Kitson, finance director, said he had had no contact or communication with Mr Harris. If any letters had been sent, he did not know about them.

But later Booker confirmed that a letter had been received in May last year, and a second in April this year with an indicative price of $25m for the whole Agatha Christie business. That represented £9.7m for Booker's 64 per cent – less than the £10m in yesterday's sale to Chorion, the Aim-listed leisure group.

Jonathan Taylor: flummoxed — Ashley Ashwood

Steelmaker looks sharper as pound loses its edge

Peter Marsh looks at the prospects of a rebound in the fortunes of British Steel after a difficult two years

As the pound has weakened against the D-Mark in recent weeks, British Steel managers have breathed sighs of relief: in the past two years, the company has seen profits fall by about three quarters, as sterling's rise to some DM3 has eaten into export margins.

Now a shaft of light may be apparent for the company, which on Monday week announces its results for the year to March 31. While the City expects pre-tax profits of about £260m ($426m) – a far cry from the £1.1bn attained in 1995-96 – many analysts are expecting a rebound in the next couple of years, with profits possibly rising to £500m-£700m by the turn of the century.

But the faltering pound is only one of three factors at work. With about 70 per cent of its manufacturing but less than 45 per cent of its £7bn-a-year sales in the UK, BS has been hit harder than most other UK engineering groups by currency changes.

About two fifths of sales come from continental Europe, putting the company directly in the firing line for repercussions from sterling's earlier appreciation. North America accounts for about 10 per cent of revenues and Asia about 7 per cent.

As the UK economy slows, the indications are that the pound may slip to about DM2.7 by next year, with a consequent boost for BS's profits. For every 10-pfennig drop in the pound against the D-Mark, BS gains £100m at the pre-tax level, according to analysts' estimates.

Calculations of this sort have been partly behind the recent rise in the company's share price, which last night closed at 154p, up from 129p late last December. Even so, over the past two years the shares have underperformed the rest of the UK stock market by about 40 per cent.

The two other factors behind analysts' better expectations for the company both contain a fair element of uncertainty. BS is accelerating moves to cut costs, through job losses, higher internal efficiencies and squeezing more value out of its suppliers.

The company expects 2,000 jobs to go from its UK workforce of 40,000 (out of total world staff of 50,000) by the end of this year. Though BS is not divulging its plans, some analysts believe a further 10,000 jobs could disappear by early next decade. Terry Sinclair of Salomon Smith Barney estimates job reductions and other programmes in the pipeline could reduce BS's costs by £560m a year by 2001.

"The company wants to become the lowest-cost steel producer in Europe," he says. "It wants to go down a whole flight of stairs."

However, there are questions as to how well BS can implement its plans for "flattening" its management structure and introducing more flexible "teamworking" into its steel plants. The company is starting such schemes well behind other large western industrial companies, many of which began them a decade ago.

Martin Doble, managing director of Beddows & Co, a London-based steel industry consultancy, says BS "has some work to do" in catching up on efficiency programmes with other European steel producers such as Thyssen-Krupp of Germany, and Hoogovens of the Netherlands. In the past, he says, such companies have invested far more in this part of their operations.

Mr Doble says that BS, however, has relied mainly on the UK's low labour rates to cut operating costs, and now realises it needs to do more – such as projects to buy more raw materials from single suppliers and increasing automation.

The third factor that may boost the outlook for BS is the generally good demand for steel in Europe, arising from solid economic growth in Germany and France and consequent rising sales of goods from cars to washing machines that use the metal. According to the OECD, European Union steel demand is likely to increase by 6.2 per cent this year to 138m tonnes, after a 12.9 per cent increase last year. Tim Bennett at Morgan Stanley Dean Witter says: "Right now life [in the steel industry] is pretty good."

But the outlook for prices – the key influence on profits – is less clear. Some believe secondary effects of the Asian troubles could lead to a softer market this year. For instance, cheap imports into western Europe from south-east Asian steelmakers, or from plants in eastern Europe deprived of their former large markets in Asia, could force price cuts, particularly at the low-margin end of the industry.

Meanwhile, CRU International, a UK steel consultancy, says plans for increased production from several European steel plants may lead to further price-weakening in the next 12 months. The projection underlines the uncertainties which – for all the more confident talk about BS of recent weeks – could lead to further upsets in the company's share price in the next few months.

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Dividends: Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Blick	6 mths to Mar 31	37.6	(37)	6.48	(6.15)	14.76	(13.54)	5	Sept 2	4.5	-	14
Bristol Utd Press	Yr to Mar 31	73.1	(62.5)	14.5♥	(8.38)	40.76	(20.77)	11	July 31	10	17	15.25
Caffyns	*Yr to Mar 31*	*182.6*	*(165.5)*	*1.91♠*	*(1.3)*	*46.6*	*(29.7)*	*6.5*	*July 21*	7.5	14	12.5
Ensor Holdings	Yr to Mar 31	16.1	(15.1)	0.716	(0.28♠)	2.2	(1)	0.35	July 31	0.3	[illegible]	0.5
Evans of Leeds	Yr to Mar 31	33.3	(33)	13.9	(12.6)	8.01	(8.03)	2.59	Aug 7	2.33	3.76	3.39
Hawtin	6 mths to Mar 31	21	(20.5)	1.01	(0.603)	0.92	(0.58)	0.6	Oct 2	0.525	-	1.725
Neal's	28 wks to Mar 28	15	(13.2)	2.15	(0.876♠)	12	(3.4)	2	Aug 18	-	-	3.2
Lomond Underwrit'g	*Yr to Mar 31* ☆	*11.2‡*	*(7.46‡)*	*10*	*(8.99)*	*21.6*	*(14.9)*	*12.5*	*Sept 18*	*10*	12.5	*10*
Lookers	6 mths to Mar 31	277	(302)	4.26♥	(4)	7.3	(6.2)	2.6	Sept 30	2.6	-	8.25
Morland	6 mths to Mar 31	65.7	(43.8)	6.57♠	(6.83♥)	15	(17.3)	4	July 10	3.71	-	13.18
NFC	6 mths to Mar 31	1,112	(1,173)	58.4♥	(53.3♥)	4.9	(4.6)	2大	Aug 17	2.5	-	7.1大大
Premier Asset	6 mths to Mar 31	1.59	(-)	0.456L♠	(-)	0.7[illegible]	(-)	-	-	-	-	-
Railtrack	Yr to Mar 31	2,467	(2,437)	388♥	(346♥)	39.4†§	(66.5)	16.1	Oct 5	14.8	24	22.1
Shanks & McEwan	Yr to Mar 28	176.7	(144.1)	25♠	(22.9♥)	8.9	(7.7)	2.8	Aug 3	2.6	4.2	3.9
Theo Fennell Φ	Yr to Mar 31	10.2	(10.6)	0.543	(0.517)	2.71	(2.14)	-	-	-	-	-
United Drug ♣	*6 mths to Mar 31*	200.9	(143.3)	*4.41*	*(3.26)*	*13.28†*	*(10.57)*	3.3	*July 27*	*3*	-	*9.9*
Victoria	Yr to Mar 28	35.7	(36.8)	1.01	(2.29♥)	10.71	(31.02)	3.5	July 13	[illegible]	5.5	[illegible]
Yeoman Φ	6 mths to Mar 31	0.168	(0.098)	[illegible]	(0.205L)	16.4L	(-)	-	-	-	-	-

Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Asset Management	6 mths to Mar 31	124.9	(109.3)	0.271	(0.065)	3.15	(0.77)	1	July 20	-	-	1.5

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♠After exceptional charge. ♥After exceptional credit. †On increased capital. ΦAim stock. ☆Comparatives pro forma. ‡Income. 大Foreign income dividend. 大大Includes fid element. ♣Irish currency. §Includes windfall tax.

NFC to buy back 25% of its equity

By Jonathan Ford

NFC, the logistics group that has raised more than £250m from disposals in the last 12 months, is to buy back a quarter of its equity in a deal that will return £307m ($503m) to shareholders.

The buy-back will leave NFC with gearing of about 80 per cent by the year-end, and excludes the possibility of it making large acquisitions in the near future.

Gerry Murphy, chief executive, said the buy-back offered better value to shareholders than a large deal could have done. "We didn't see there was good value to be had in the market for a big acquisition because prices are just too high," he said.

The group intends to seek "bolt-on" purchases in Europe and North America, which it believes will create more value.

The buy-back was welcomed by analysts, and the shares rose 2½p to 182p.

However, there was a sting in the tail from NFC. The company said would reduce its dividends following the pay-out, disappointing analysts who had expected them to be maintained. The interim payment has been cut by 20 per cent to 2p. Together with a forecast final dividend of 3p, that would make 5p for the year against 7.1p in the year to last September.

Mr Murphy said the change would leave the dividend more than twice covered – against 1.4 times last year – and bring the shares down to a market yield. Interim earnings per share increased from 4.3p to 4.4p.

"We don't feel NFC should be a yield stock, especially with a highly geared balance sheet, and we have said for some time we wanted earnings cover of about two times," he said.

Under the terms of the buy-back, shareholders will receive 176p in cash or loan notes and three new shares in exchange for every four shares held.

NFC expects to complete the buy-back by the end of September.

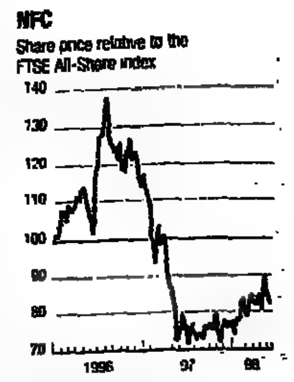
The company also reported pre-tax profits up from £53.3m to £59.4m for the six months to March 31, on turnover 5 per cent lower at £1.1bn. Excluding disposals and the impact of a stronger sterling exchange rate, the underlying rate of sales growth was 5 per cent.

Business disposals gave rise to exceptional items of £7.5m, principally on the sale of BRS truck rental. Excluding these, pre-tax profits were £51.9m (£50.1m).

COMMENT

NFC

There is a rather sad symmetry about NFC's share buy-back. In late 1993 it raised £263m in a rights issue, vaguely aimed at expansion. As it turned out, the transport group needed an axe rather than an infusion. Now it plans to spend more than £300m reining in its equity. It is to be hoped that this marks the end of a long and painful turnround by a "new" management that has been in place for three years. The nuts and bolts of the buy-back decision cannot be faulted. Disposals had left the group with nearly £50m net cash. It tried and failed to find attractively priced acquisitions – so, copybook-style, it is returning cash to shareholders. The exercise could enhance earnings per share by as much as 8 per cent. Forecasts for the year to September 1999 have been pushed up to about 13p on pre-tax profits of roughly £115m. But the buy-back clearly does not address the question of the group's growth prospects in threadbare markets. Most distributors remain caught between their own rabid competitiveness and the parsimony of their big customers. They ought to consolidate but their mighty clients demand dedicated facilities and can abort contracts if control changes. A company like Hays has kept growing by offering more sophisticated services and expanding on the continent. NFC says it still has the capacity for such investment. Investors must pray that is true.



UK coal

Yesterday's 11 per cent rise in RJB Mining's shares is a depressing omen for UK consumers. Notwithstanding the government's supposed commitment to market forces, the consumer and the environment, a cosy deal on coal is looking ever more likely. If the moratorium on new gas-fired power stations is extended for perhaps five years, it will buttress National Power and PowerGen's ability to set the pool price of electricity. Consumers would be partly compensated for this rigging of the market if the generators' dominance were reduced through the mooted sale of some capacity. This would mean swapping one lot of new entrants into the market, the gas-fired generators, for another, those buying existing plants from the big generators. This may save UK coal for a while, but it is a poor way of introducing greater competition into the generation market.

AEA in link-up with Japanese

By James Buxton and Roger Taylor

AEA Technology, the engineering services company which holds a patent for lithium battery technology, is to produce its own lithium-ion batteries in a £12m ($20m) venture with two Japanese companies.

AEA will own 55 per cent of AGM Batteries, which it is forming with Japan Storage Battery and Mitsubishi Materials. The venture is setting up a plant at Thurso in the north of Scotland, close to the Dounreay complex of the UK Atomic Energy Authority from which AEA was spun off and privatised in 1996.

AEA is to tackle a previously neglected niche in the rechargeable lithium battery market for the defence, communications and health sectors. Other lithium battery producers, which license AEA's technology, concentrate on mass markets for camcorders, mobile telephones and personal computers.

Japan Storage Battery, which will have 25 per cent of the venture, is the world market leader in rectangular lithium cells and batteries and will contribute its manufacturing skills. Mitsubishi Materials, part of the Mitsubishi Group, will have 20 per cent and supply raw materials and technology.

The AGM Battery plant will initially employ 130 people. It will receive £7.2m in funds from the Highlands and Islands Enterprise development agency. A £3.9m factory will be built for it by HIE and it will be given £3.3m in grants and loans.

AEA shares put on 27½p to close at 812½p. They were privatised at 280p.

BICC reaps Australian gain

By Andrew Edgecliffe-Johnson

BICC, the cables and construction group, will collect about £47m ($77m) for selling its remaining stake in Metal Manufacturers, its 61 per cent owned Australian subsidiary.

BICC announced six weeks ago that it was parting company with Metal Manufacturers in a deal which saw it take full control of the cabling business, while leaving the remaining building and electrical businesses in a stand-alone Metal Manufacturers.

At the time, BICC offered Metal Manufacturers an undisclosed cash payment, and the Australian company bought back 70m of BICC's 116m shares in Metal Manufacturers.

Yesterday, BICC said it had agreed to sell the remaining 46m shares to JB Were for A$2.12-a-share, with a view to JB Were selling the stake in the Australian market.

The sale and buy-back agreement will therefore result in a cash payment by BICC Australia to Metal Manufacturers of about A$125m ($77m).

The transactions are conditional on approval by both companies' shareholders.

EURO PRICES

EQUITIES

Europe advances on broad front

EUROPEAN OVERVIEW

By Martin Dickson, Financial Editor

Trans-European equity indices rose modestly yesterday, with the advance spread broadly among industrial sectors despite overnight weakness in Tokyo and a lacklustre morning on Wall Street.

The FTSE Eurotop 300 index closed at 1241.21, up 9.93, while the Eurotop 100 index closed at 2845.00, up 24.69. The Ebloc 100 index, which tracks companies from founder members of European monetary union, closed at 1047.63, up 12.34.

In the fixed income market, Europe was generally range-bound with traders awaiting the release of US labour market statistics on Friday. German government bonds were slightly lower on profit-taking, with the benchmark 10-year issue down 0.08 at 102.93 to yield 4.86, up from 4.85 the previous day.

Among Eurotop sectors, the day's top performing sector was tobacco, up 3.18 per cent, with BAT Industries rallying strongly to Ecu 8.58, up Ecu 1.4, in a bounce from recent weakness. It was helped by strength in Zurich Insurance, up Ecu 8 at Ecu 573.34, which is merging with BAT's financial arm.

Paper and packaging followed through on Tuesday's strong performance with a 2.62 per cent rise, reflecting continued hopes of consolidation in the wake of the proposed merger between Stora of Sweden and Enso Oy of Finland. BIC rose Ecu 1.5 to Ecu 72.58, while Stora A shares were Ecu 1.8 ahead at Ecu 16.47. UPM-Kymmene finished at Ecu 27.12, up Ecu 0.6

The automobile sector recorded a 2.08 per cent rise, helped by Volkswagen, up Ecu 38.7 to Ecu 771.99, and Peugeot, up Ecu 4.7 to Ecu 182.52.

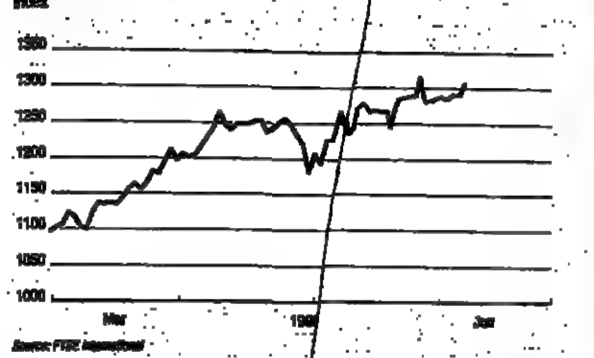
Volkswagen was helped by reports that it had agreed to cooperate with Porsche to jointly develop and produce off-road vehicles.

Telecommunications rose 1.86 per cent, with KPN up Ecu 1 at Ecu 51.43 and France Telecom Ecu 1 higher at Ecu 54.69.

Other sectors which performed well included food retailers, up 1.68 per cent, life insurance, which was ahead 1.88 per cent, and investment companies, which rose 1.92 per cent.

The only poor performing sector was other financials.

Eurotop 300 Eurobloc
Index



Source: FTSE International

FTSE Actuaries Share Indices — European series

Produced in conjunction with the Faculty and Institute of Actuaries

Jun 03 National & Regional Markets	Ecu Index	Day's %	change points	Yield gross %	xd adj ytd	Total rtn (Ecu)
FTSE Eurotop 300	1241.21	+0.81	+9.93	1.98	14.82	1266.43
FTSE Eurotop 100	2845.00	+0.8	+24.69	2.04	16.09	1011.44
FTSE Ebloc 100	1047.63	+1.1	+12.34	1.84	7.49	1055.37
FTSE Eurotop 300 Regions						
Eurobloc	1307.84	+1.18	+15.28	1.80	11.86	1325.22
UK	1133.38	+0.62	+7.04	2.83	20.05	1172.73
Europe Ex-Eurobloc	1185.86	+0.43	+5.08	2.37	16.63	1216.33
Europe Ex-UK	1303.28	+0.90	+11.57	1.57	11.86	1319.04
FTSE Eurotop Industry Sectors						
RESOURCES	1018.37	0.00	+0.01	2.76	16.70	1048.81
Extractive Industries	864.00	+0.17	+1.47	3.00	0.00	864.00
Oil, Integrated	980.05	-0.01	-0.11	2.75	8.77	988.78
Oil, Exploration & Prod	1023.73	0.23	+2.31	2.57	0.00	1023.73
GENERAL INDUSTRIES	1240.49	0.99	+12.13	1.87	12.48	1257.10
Construction	1001.70	-0.01	-0.10	3.00	0.00	1001.70
Building Matls & Merchs	1097.92	0.00	-0.05	2.42	0.00	1097.92
Chemicals	1062.81	+1.07	+11.27	2.11	14.73	1078.48
Diversified Industrials	1038.13	+1.72	+17.51	2.05	4.24	1040.47
Electronic & Elect Equip	1046.29	+0.37	+3.84	1.74	0.49	1046.79
Engineering	1058.68	+0.50	+5.23	2.20	2.75	1061.47
Paper, Pckg & Printing	1045.58	+2.62	+26.68	2.34	0.00	1045.58
CONSUMER GOODS	1170.37	+0.86	+10.19	1.85	12.03	1165.49
Automobiles	1101.88	+2.08	+22.45	1.04	4.99	1106.99
Alcoholic Beverages	984.84	+0.75	+7.44	2.35	1.85	986.71
Food Producers	1067.41	+0.41	+4.32	1.55	7.60	1075.46
Household Goods & Texts	1091.80	+1.04	+11.19	1.70	0.72	1092.57
Healthcare	959.46	-0.29	-2.78	2.39	0.52	959.21
Pharmaceuticals	984.89	+0.95	+9.25	1.38	1.70	986.59
Tobacco	989.50	+3.18	+30.51	4.38	1.81	1001.38
SERVICES	1201.41	+1.12	+13.36	1.07	1.45	1223.02
Distribution	1030.11	+0.63	+6.42	1.01	1.70	1032.89
Leisure & Hotels	1033.20	+0.14	+1.45	2.34	0.00	1033.20
Media	1064.15	+0.60	+6.39	2.12	1.29	1065.46
Retailers, Food	1012.18	+1.68	+16.72	2.00	7.01	1019.42
Retailers, General	1032.55	-0.12	-1.29	2.22	6.22	1039.90
Telecommunications	1034.41	+1.86	+18.94	1.84	2.91	1036.80
Breweries, Pubs & Rests	968.55	+0.82	+7.91	2.81	8.9	977.32
Support Services	1024.99	+0.57	+5.86	1.22	5.8	1030.53
Transport	1054.19	-0.11	-1.15	2.49	5.0	1060.12
Information Technology	1102.32	+1.11	+12.11	0.37	2.3	1105.83
UTILITIES	1307.23	+0.50	+6.55	3.36	37.2	1381.21
Electricity	994.52	+0.32	+3.13	3.81	15.1	1009.51
Gas Distribution	981.55	+0.75	+7.36	1.65	63.2	1061.76
Water	1006.36	+1.12	+11.14	6.00	0.0	1006.36
FINANCIALS	1382.01	+0.72	+9.73	1.91	17.2	1396.94
Banks, Retail	987.40	+0.78	+7.65	2.12	6.71	994.17
Insurance	892.00	+0.36	+3.67	1.33	4.25	895.31
Life Insurance	1053.51	+1.88	+18.46	1.89	3.11	1057.00
Other Financial	1002.28	-0.84	-8.52	1.96	6.0	1008.25
Investment Companies	1121.76	+1.92	+21.10	2.00	10.5	1132.53
Property	895.15	+0.68	+6.00	3.01	11.1	908.61

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THREE MONTH EURO FUTURES (LIFFE) Ecu points of 100%

[illegible]

THREE MONTH EURO OPTIONS (LIFFE) Ecu points of 100%

[illegible]

FTSE EUROTOP 100 INDEX FUTURES (LIFFE) Ecu20 per full index point

[illegible]

EURO STYLE FTSE EUROTOP 100 INDEX OPTION (AEX) Ecu10 per index point

[illegible]

OTHER INDICES

[illegible]

FTSE EUROTOP 300

ALCOHOLIC BEVERAGES · AUTOMOBILES · BANKS, RETAIL · BREWERIES, PUBS & RESTAURANTS · BUILDING MATERIALS & MERCHANTS · CHEMICALS · CONSTRUCTION · DISTRIBUTORS · DIVERSIFIED INDUSTRIALS · ELECTRICITY · ELECTRONIC & ELECTRICAL EQPT. · ENGINEERING · EXTRACTIVE INDUSTRIES · FOOD PRODUCERS · GAS DISTRIBUTION · HEALTH CARE · HOUSEHOLD GOODS & TEXTILES · INFORMATION TECHNOLOGY · INSURANCE · INVESTMENT COMPANIES · LEISURE & HOTELS · LIFE INSURANCE · MEDIA · OIL, EXPLORATION & PRODUCTION · OIL, INTEGRATED · OTHER FINANCIAL · PAPER, PACKAGING & PRINTING · PHARMACEUTICALS · PROPERTY · RETAILERS, FOOD · RETAILERS, GENERAL · SUPPORT SERVICES · TELECOMMUNICATIONS · TOBACCO · TRANSPORT · UTILITIES

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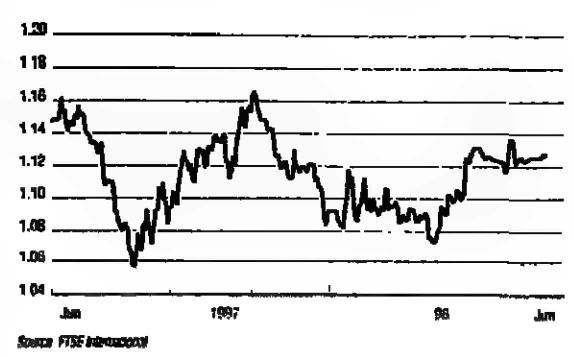
CURRENCIES & MONEY

FT SYNTHETIC EURO RATES

Jun 03	Currency code	Closing mid point	Change on day	Change on day%	Change on week	Change week %
Europe						
Austria	ATS	14.069633	+0.0001	+0.00	-0.0010	-0.01
Belgium	BEF	41.246186	-0.0021	-0.01	-0.0025	-0.01
Czech Republic	CZK	36.887406	-0.0320	-0.09	-0.6713	-1.79
Denmark	DKK	7.615479	-0.0006	-0.01	+0.0009	-0.01
Finland	FIM	6.076675	+0.0001	+0.00	-0.0001	+0.00
France	FRF	6.705242	+0.0024	+0.04	+0.0011	+0.02
Germany	DEM	1.999585	-0.0000	+0.00	-0.0001	-0.01
Greece	GRD	340.351563	+0.2402	+0.07	-4.5995	-1.33
Hungary	HUF	240.486140	-0.8754	-0.36	+1.4664	+0.61
Ireland	IEP	0.792085	-0.0005	-0.07	-0.0016	-0.20
Italy	ITL	1969.395346	-0.9981	-0.05	-0.8314	-0.04
Luxembourg	LUF	41.246186	-0.0021	-0.01	-0.0025	-0.01
Netherlands	NLG	2.253588	+0.0002	+0.01	+0.0002	+0.01
Norway	NOK	8.415689	-0.0113	-0.14	-0.0784	-0.92
Poland	PLN	3.892150	-0.0278	-0.71	-0.0756	-1.90
Portugal	PTE	204.707472	-0.0182	-0.01	-0.0206	-0.01
Romania	ROL	9662.666652	+90.1272	+0.94	+119.3546	+1.25
Russia	RUB	6.954863	+0.0414	+0.60	+0.0094	+0.13
Slovakia	SKK	38.851537	+0.0575	+0.15	+0.1238	+0.32
Spain	ESP	169.820308	+0.0396	+0.02	+0.1730	+0.10
Sweden	SEK	8.764053	+0.0055	+0.06	-0.0241	-0.27
Switzerland	CHF	1.665965	+0.0039	+0.23	+0.0140	+0.85
United Kingdom	GBP	0.689167	+0.0037	+0.54	+0.0010	+0.15
ECU	ECU	1.015298	+0.0008	+0.08	+0.0005	+0.05
Americas						
Brazil	BRL	1.299452	+0.0076	+0.58	+0.0079	+0.61
Canada	CAD	1.640481	+0.0094	+0.58	+0.0057	+0.35
Mexico	MXN	9.939146	-0.0374	-0.37	-0.0279	-0.28
United States	USD	1.128487	+0.0063	+0.56	+0.0061	+0.54
Pacific/Middle East/Africa						
Australia	AUD	1.844511	+0.0214	+1.17	+0.0384	+2.13
Hong Kong	HKD	8.744079	+0.0475	+0.55	+0.0471	+0.54
Japan	JPY	156.052772	+0.2381	+0.15	+1.6032	+1.04
Singapore	SGD	1.888522	+0.0043	+0.23	+0.0169	+0.90
South Africa	ZAR	5.754874	-0.0095	-0.18	-0.0213	-0.37

Source: FTSE International Ltd. This table gives a theoretic, synthetic value for the Euro against various other currencies, calculated by applying GDP weights to Euro "in" currencies. The Euro will not exist until January 1 and the table should not be used as a precise guide to its value. It is designed to show broad currency valuation trends. Currency weightings as follows: DEM 0.3364, FRF 0.2217, ITL 0.1823, NLG 0.0577, BEF 0.0386, ESP 0.0848, IEP 0.0116, PTE 0.0155, ATS 0.0328, FIM 0.0187.

Synthetic Euro against the dollar
$ per euro



Source: FTSE International

EUROZONE CURRENCY CONVERGENCE

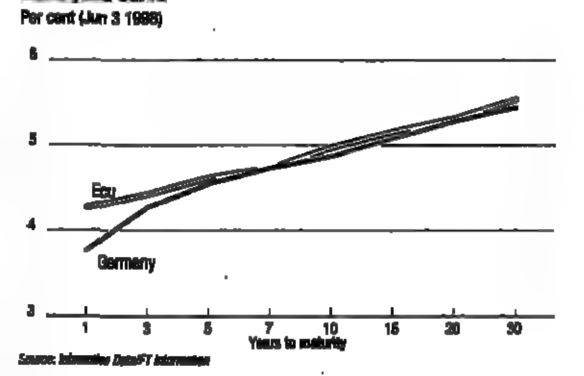
Bilateral conversion rates against the D-Mark

Jun 03	Fixed rate	Market rate	Diff fxd v mkt %	Week ago %	Forward rate	Forward Int rate	Diff int rate v DEM
Austria	7.03552	7.0363	+0.01	+0.01	7.0394	3.8	+0.08
Belgium	20.6255	20.6276	+0.01	+0.01	20.6332	3.77	+0.05
France	3.35386	3.3533	-0.02	-0.04	[illegible]	3.72	+0.00
Finland	3.04001	3.039	-0.03	-0.04	3.0416	3.87	+0.15
Ireland	0.402676	0.3961	-1.63	-1.43	0.4016	6.15	+2.43
Italy	990.002	984.9117	-0.51	-0.48	991.042	4.81	+1.09
Luxembourg	20.6255	20.6276	+0.01	+0.01	20.6332	3.77	+0.05
Netherlands	1.12674	1.127	+0.02	+0.01	1.1268	3.7	-0.02
Portugal	102.505	102.376	-0.13	-0.12	102.6391	4.17	+0.45
Spain	85.0722	84.9286	-0.17	-0.28	85.1807	4.24	+0.52
Germany	1		+0.00	+0.00		3.72	+0.00

Source: The WM Company. Fixed rates are bilateral rates agreed by EU May 2-3, forward rates are exchange rates to 31/12/98 interpolated from market quotes, forward interest rates are those implied by these forward exchange rates. Diff int rates v DEM are differences between implied forward interest rates and the DEM forward interest rate for 31/12/98. DEM forward interest rate for 31/12/98 is calculated by interpolation between published BBA market fixings.

BONDS

Bond yield curve
Per cent (Jun 3 1998)



Source: Interactive Data/FT Information

GOVERNMENT BOND SPREADS vs ECU

Jun 03	2 yrs	5 yrs	7 yrs	10 yrs	20 yrs	30 yrs
"Ins"						
Austria	-0.15	-0.02	+0.09	+0.01	+0.06	-0.02
Belgium	-0.14	-0.03	+0.09	+0.03	+0.01	+0.02
Finland	-0.22	+0.01	+0.09	+0.02	-0.32	-0.53
France	-0.22	-0.11	-0.04	-0.05	-0.06	-0.07
Germany	-0.28	-0.09	+0.04	-0.11	-0.06	-0.09
Ireland	+0.77	+0.13	+0.17	+0.16	+0.12	+0.22
Italy	+0.22	+0.19	+0.22	+0.19	+0.20	+0.14
Luxembourg	-0.14	-0.03	+0.09	+0.03	+0.01	+0.02
Netherlands	-0.20	-0.07	-0.02	-0.07	-0.05	-0.08
Portugal	+0.00	+0.10	+0.14	+0.12	+0.29	+0.37
Spain	-0.07	+0.08	+0.14	+0.11	+0.16	+0.31
"Outs"						
Denmark	+0.09	+0.13	+0.18	+0.09	+0.00	+0.12
Greece	+5.79	+2.39	+3.51	+2.73	+2.39	+2.18
Sweden	+0.19	+0.15	+0.19	+0.11	+0.10	-0.11
UK	+2.09	+1.24	+1.09	+0.59	+0.36	+0.01

Source: Interactive Data/FT Information. Table takes common convention constant maturity treasury yield curves for each currency and compares to the constant maturity Ecu curve to calculate a spread.

EUROZONE CORPORATE BONDS

Jun 03	Red date	Coupon	S & P Rating	Bid price	Bid yld	Day's chge yld	Mth's chge yld	Spread v Ecu
Sovereign Fungible Issues								
Belgium (Kingdom of)	03/08	5.750	N/A	105.710	5.00	+0.01	-0.08	+0.03
France (Rep of)	04/08	5.250	N/A	102.540	4.92	+0.02	-0.09	-0.05
Italy (Rep of)	05/08	5.000	AA	99.370	5.02	+0.01	-0.11	+0.05
Portugal (Rep of)	06/08	5.375	AA-	102.580	5.04	+0.02	-0.04	[illegible]
Euro issues								
[illegible]								

Source: Interactive Data/FT Information. Fungible bonds are sovereign bonds issued in tranches by "in" countries and fungible into one Euro bond from 1/1/99. Euro issues are issued in the new currency. Ecu bonds are issued in Ecu but convert to Euros 1/1/99.

EUROZONE CREDIT SPREADS vs ECU

[illegible]

Source: Interactive Data/FT Information. Table gives spreads to the Ecu curve for issues of a broadly representative credit in each rating band denominated in Euro "in" currencies.

Treasuries lead prices downward

GOVERNMENT BONDS

By Jeremy Grant in London and John Labate in New York

Markets were muted yesterday as major currencies faltered against the yen, share markets moved higher and there were few economic data releases to brighten up a spell of dull trading.

European bonds fell largely in sympathy with weakness in US Treasuries, but there was scarcely any news, particularly on emerging markets, to shift prices.

Economists said underlying sentiment was still strong but persistent talk of possible support for the yen helped reduce interest in US Treasuries.

The US said this week there was no change in its current view of the dollar/yen rate, although monetary officials in Tokyo have expressed almost daily concerns about yen weakness.

"It seems as though the heat's turning up a bit and we're getting some comments that are a little more yen-friendly, so the appetite for Treasuries near-term is not too great," said James Mitchell, at Nomura.

In addition, traders noted that upward movement in Treasuries might be limited in the short term as the market tested resistance to lower yields on the 30-year long bond, with 5.75 per cent seen as the key level.

US TREASURIES fell in quiet trading, with little economic news to spur prices. By early afternoon the benchmark 30-year bond was down $\frac{4}{16}$ to $104\frac{14}{32}$, sending the yield up to 5.815 per cent.

Shorter term issues also fell, with the 10-year note off $\frac{7}{32}$ to $100\frac{3}{16}$, yielding 5.583 per cent, and the two-year note down $\frac{1}{32}$ to $99\frac{29}{32}$, yielding 5.550 per cent.

"One thing that drove prices higher late last week and early this week were problems overseas. It made the market look like a safe haven," said Kevin Logan, at Dresdner Kleinwort Benson. "A lot of that has dissipated in the past day or two."

The week's most keenly awaited report, of May employment data, will be released tomorrow. "There's a general expectation that job growth will slow in the May report," said Mr Logan.

The May employment data are especially difficult for analysts to predict due to benchmark revisions done once a year.

The consensus forecast is for payrolls to have risen by 225,000 in May, below the average for the past 12 months, but analysts are expected to study closely the report's wages component for signs of inflationary pressures.

UK GILTS had a lacklustre day ahead of today's announcement by the Bank of England of the results of its monetary policy committee (MPC) meeting.

The September gilt future drifted in a 22 point range throughout the day, settling down 0.13 points at 109.88. Volume was meagre at 6,000 contracts traded.

Although the British manufacturing sector has entered a slowdown, which is seen as a significant factor in favour of keeping interest rates unchanged, economists said there is some nervousness over whether the committee might have adopted a more hawkish view on inflation.

"There's certainly some uncertainty surrounding it, but most people aren't looking for a change," said Phyllis Reid, international bond strategist at Barclays Capital.

GERMAN BUNDS also weakened, dragged down by US Treasuries as the market waited for the release of German first-quarter gross domestic product data today.

Most analysts are expecting data showing GDP jumped to 3.6 per cent, from 2.4 per cent in the last quarter of 1997.

The June 10-year bund futures contract settled at 108.02, down 0.08 from the previous day's close.

Borrowing backed by VAT rebates

By Jeremy Grant

Debt markets yesterday saw the first transaction involving the securitisation of value-added tax rebates with the launch of a $100m borrowing by Dublin-based Meridian VAT Reclaim.

The company is an agent for corporate clients in the recovery of VAT incurred in the UK, France, Germany and the Netherlands.

The three-year financing structure, arranged and privately placed by Greenwich NatWest, will form part of a prepayment facility that will allow Meridian to pre-pay VAT refunds against claims due from VAT authorities.

The facility carried a coupon linked to Libor.

Previously, Meridian has repaid VAT rebate claims to clients once the funds have been received, a process that took up to nine months.

All customers will now sign a prepayment facility with Meridian, which will assess VAT claims and pass them to the special purpose vehicle.

The company, established in 1991, is the world's largest VAT recovery organisation. Stuart Lammin, associate director at Greenwich NatWest, said securitisation of VAT receivables had not been attempted before because of the small size of companies involved in the VAT refund business.

"No one has been big enough to do it. If you look at Meridian, it's five to six years old. You need a track record to convince the rating agencies to get it secured. All that takes time."

He said the securitisation was aimed at building up Meridien's client base rather than balance-sheet restructuring.

East German group to launch IPO

By Frederick Stüdemann

East German industry is making a rare appearance on the Frankfurt Stock Exchange this month with the initial public offering of 22.7m shares in Jenoptik, the technology group and one of the region's few big companies to have survived the transition from communism.

Jenoptik, whose interests include the construction of "clean buildings" for the computer components, telecoms and photo-electronics industries, has announced a price range of DM28 to DM34 for the shares.

The offer is set to close on June 12 and trading is expected to begin on June 16. The issue is being handled by a consortium of 11 German and international banks led by Goldman Sachs, Commerzbank and Landesbank Hessen-Thüringen, a regional state bank.

This is not the first east German IPO, but is easily the largest. Based on the indicated price range, it could raise up to DM772m ($433m).

The shares are being sold by the state of Thuringia, which holds 46.1 per cent of Jenoptik, and a consortium of regional state banks, which holds 34.9 per cent.

The offer will make up 61 per cent of Jenoptik's total stock and will reduce Thuringia's stake to 19.2 per cent; the banks' holding will drop to 8.5 per cent.

Jenoptik is hoping to place a significant number of shares with domestic and international institutions, though it said it was keen to attract private investors from eastern Germany.

Jenoptik has forecast sales this year of more than DM3bn and profits of about DM75m, prompting the finance ministry of the state of Thuringia to boast that it is the only significantly large enterprise in east Germany that genuinely comes from the region.

Formed from the Carl-Zeiss-Jena combine, which under communism made everything from microscopes to satellite components, Jenoptik has reinvented itself since German unification.

Many old product lines, such as the defence technology that once helped arm the Warsaw Pact forces, were discontinued as the company refocused on civilian high-technology.

The company is headed by Lothar Späth, a former west German politician who quit as premier of the state of Baden Württemberg following a scandal about accepting favours from business.

He drastically reduced pay-roll numbers, demolished out-dated buildings and plant and developed property in the Jena region, where the company is based.

He also used money from the Treuhand, the federal government's privatisation agency, to acquire established western companies, which he sees as a means of moving up the technology chain.

To keep ahead, Mr Späth will have to keep on moving up the technology chain. The IPO is intended to assist in this as most of the proceeds are earmarked for a further push in the area of electro-optics which accounted for 11 per cent of the company's DM2.5bn of sales in 1997.

US investors buy Fannie Mae

INTERNATIONAL BONDS

By Edward Luce

Fannie Mae, as expected, came to the market with its first seven-year benchmark issue, in a global offering largely distributed to US investors.

An official at Goldman Sachs, joint lead with Merrill Lynch and J.P. Morgan, said the offering had particular appeal to US investors given the absence of any Treasury funding in that maturity. "This is viewed as a Treasury surrogate," he said.

In addition, investors in Europe remain nervous about the strength of the US dollar market, given the spate of generally unsettling news from Russia, Indonesia, Japan and the Indian sub-continent over the last few weeks. "The US market has a more confident and positive tone than elsewhere," said an official.

The bonds, priced to yield 21 basis points over the May 2005 Treasury, tightened after launch to a spread of 20.5 basis points over the benchmark. The offering means Fannie Mae has a complete yield curve in benchmark notes ranging up to 10 years.

Elsewhere, RUSSIA's $1.25bn offering was well received by international investors, tightening by around 20 basis points from its initial launch spread of 650 points. The five-year bond, lead-managed by Goldman Sachs, was launched at a significant pick-up to the secondary market yield spread of existing Russia dollar benchmarks.

An official at Goldman Sachs said the success of the issue demonstrated investor confidence in Russia. But others said that much of the demand came from investors switching out of existing bonds into the new, higher-yielding paper.

The spreads on Russia's five and 10-year dollar bonds widened after the launch of yesterday's offering.

Russia is expected to return to the bond markets in the near future. Other emerging market sovereign issues are on hold.

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
US DOLLARS							
Fannie Mae(i)*‡	3.5bn	5.75	99.492R	Jun 2005	0.125R	+21(6½%May05)	Merrill Lynch
PNC Bank National Assoct	300	(a)	99.925R	Jul 2003	0.175R	-	ABN Amro
D-MARKS							
Deutsche Bahn Finance	1.5bn	5.00	99.186R	Jun 2008	0.325R	+28(5¼%Jun08)	DG Bank/WestLB
Commerzbank	1bn	(b)	100.00	Jun 2008	0.20	-	Commerzbank
STERLING							
European Inv'ment Bnk(c)	200	6.25	102.419R	Dec 2008	0.325R	+16 (9Oct08)	Barclays/SBCWDR
BBBS(d)	125	6.625	98.588R	Jun 2023	0.825R	+102(8Jun21)	Barclays/SBCWDR
FRENCH FRANCS							
Sun America Inst Fnding No1	1.5bn	4.875	99.685R	Jul 2004	0.30	+34(i)	CDC Marchés
GUILDERS							
SR Bank	300	5.25	99.642R	Jun 2008	0.425	+40(i)	ABN Amro
ITALIAN LIRE							
CAF	200bn	(f)	99.93	Jun 2001	0.25	-	JP Morgan
LUXEMBOURG FRANCS							
Suedwest LB (g)	3bn	6.50	102.17	Jun 2000	2.00	-	BGL
SWEDISH KRONOR							
Province of Quebec	600	5.25	101.95	Jul 2004	1.875	+38(i)	BIL
GREEK DRACHMA							
Halifax	10bn	(h)	99.95R	Jun 2001	0.20	-	Bank of America

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. *Unlisted. ‡ Floating-rate note. #Semi-annual coupon. R: fixed re-offer price; fees shown at re-offer level. a) 3-mth Libor +6¼bp. b) 4.9% for 1st year, then linked to Rex 10-year yield. c) Fungible with £500m. Plus 142 days accrued. d) Bradford and Bingley Building Society. f) 3-mth Libor +45bp. g) Redeemed at par or 35 Deutsche Bank Shares per LFr100k bond. h) 9.25% to Jun 99 then steps down to 8%. i) Over interpolated yield. § Long 1st coupon.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

Jun 3	Red Date	Coupon	Bid Price	Bid Yield	Day chg yield	Wk chg yield	Month chg yld	Year chg yld
Australia	04/00	7.000	103.6405	4.81	+0.06	-0.06	-0.22	-0.88
	10/07	10.000	133.4178	5.35	+0.03	-0.05	-0.36	-1.90
Austria	09/99	7.000	103.5900	4.05	-	-0.02	-0.13	+0.12
	07/07	5.625	104.9500	4.93	+0.02	-0.03	-0.10	-0.95
Belgium	01/00	4.000	99.6300	4.10	+0.07	+0.02	-0.14	+0.45
	03/07	6.250	109.0800	4.95	-	-0.02	-0.10	-0.98
Canada	09/99	4.750	99.5200	5.14	+0.02	-	+0.04	+0.87
	06/07	7.250	113.5000	5.32	+0.01	-0.02	-0.03	-1.18
Denmark	12/99	6.000	102.3400	4.34	-0.01	-0.32	-0.18	+0.04
	11/07	7.000	114.3700	5.05	-	-0.11	-0.17	-1.23
Finland	01/99	11.000	104.1834	3.74	+0.01	-0.01	-0.07	-
	04/08	7.250	118.0920	4.98	+0.01	-0.01	-0.07	-1.29
France	01/00	4.000	99.9400	4.03	+0.03	-0.01	-0.11	+0.36
	10/04	6.750	111.4400	4.63	+0.02	-0.02	-0.13	-0.82
	10/07	5.500	104.5800	4.88	+0.02	-0.02	-0.09	-0.82
	10/25	6.000	108.1000	5.42	+0.01	-0.03	-0.05	-1.17
Germany	09/99	4.000	100.1100	3.90	+0.03	+0.01	-0.13	+0.38
	11/04	7.500	118.2900	4.66	+0.01	-0.02	-0.11	-0.70
	07/07	[illegible]	[illegible]	4.86	+0.01	-0.02	-0.10	-0.87
	07/27	6.500	115.6300	5.42	+0.01	-0.03	-0.07	-1.20
Ireland	04/99	6.250	100.5800	5.48	+0.05	+0.30	+0.38	-0.49
	08/06	8.000	118.9800	5.11	+0.02	-	-0.04	-1.52
Italy	06/00	6.000	102.7500	4.49	+0.01	-0.02	-0.04	-1.98
	05/02	6.250	105.5900	4.89	-	-0.01	-0.07	-2.01
	07/07	6.750	112.1800	5.08	-	-0.03	-0.06	-2.09
	11/26	7.250	123.6400	5.57	-	-0.03	-0.05	-2.24
Japan	03/00	6.400	110.5200	0.45	+0.06	+0.05	-0.03	-0.71
	12/02	4.800	117.5700	0.84	+0.04	-0.02	-0.20	-1.20
	09/05	3.000	112.4300	1.21	+0.02	-0.09	-0.29	-1.35
	09/17	3.000	115.3900	2.03	-	-0.12	-0.32	-1.27
Netherlands	11/99	7.500	104.7100	4.03	+0.02	-0.05	-0.10	+0.31
	02/07	5.750	106.3900	4.83	+0.01	-0.04	-0.10	-0.86
New Zealand	02/00	6.500	98.7001	7.32	+0.04	-0.07	-0.37	+0.25
	11/06	8.000	109.6913	6.46	-	-0.01	-0.34	-0.89
Norway	01/99	9.000	102.4800	4.90	+0.02	-0.10	[illegible]	+0.92
	01/07	6.750	106.7000	5.45	-	-0.10	+0.07	-0.55
Portugal	03/99	8.500	103.2400	4.20	-0.03	+0.01	-0.03	-1.07
	03/07	6.625	110.5500	5.04	+0.02	-	-0.04	-1.48
Spain	07/99	7.400	103.4600	4.22	+0.06	+0.09	+0.06	-0.62
	03/07	7.350	116.2300	5.02	+0.02	-0.02	-0.04	-1.58
Sweden	01/99	11.000	103.9818	4.36	-	-0.02	-0.33	-0.45
	08/07	8.000	121.3150	5.04	+0.01	-0.07	-0.19	-1.91
Switzerland	03/00	5.000	105.3500	1.87	+0.04	+0.01	-0.04	+0.44
	08/07	4.500	112.5000	2.90	+0.05	-0.04	-0.13	-0.49
UK	08/99	6.000	99.2734	6.64	+0.01	-0.02	+0.09	-0.13
	11/04	6.750	104.9453	5.82	+0.01	-0.07	-0.03	-1.21
	12/07	7.250	111.3125	5.68	+0.06	-0.06	-0.07	-1.39
	06/21	8.000	130.3438	5.63	-	-0.06	-0.09	-1.51
US	10/99	5.625	100.0560	5.58	+0.01	+0.01	-0.02	-0.59
	11/04	7.875	111.5080	5.65	+0.01	+0.02	-0.07	-0.82
	08/07	6.125	103.1170	5.66	+0.02	+0.02	-0.05	-0.94
	05/27	6.375	107.1170	5.88	+0.01	-0.02	-0.12	-1.01
ECU	01/00	4.000	99.6500	4.21	+0.02	-0.01	-0.07	+0.07
	04/07	5.500	104.2300	4.90	+0.01	-0.03	-0.11	-1.22

London closing. *New York mid-day. Source: Interactive Data/FT Information
Yields: Local market standard/Annualised yield basis. Yields shown for Italy exclude withholding tax at 12.5 per cent payable by nonresidents.

10 YEAR BENCHMARK SPREADS

Jun 3	Bid Yield	Spread vs Bunds	Spread vs T-Bonds
Australia	5.36	+0.50	-0.22
Austria	4.98	+0.12	-0.60
Belgium	5.00	+0.14	-0.58
Canada	5.32	+0.46	-0.26
Denmark	5.06	+0.20	-0.52
Finland	4.99	+0.13	-0.59
France	4.92	+0.06	-0.66
Germany	4.86	-	-0.72
Ireland	5.12	+0.26	-0.46
Italy	5.16	+0.30	-0.42
Japan	1.21	-3.65	-4.37
Netherlands	4.90	+0.04	-0.68
New Zealand	6.46	+1.60	+0.88
Norway	5.49	+0.63	-0.09
Portugal	5.09	+0.23	-0.49
Spain	5.08	+0.22	-0.50
Sweden	5.08	+0.22	-0.50
Switzerland	2.88	-1.98	-2.69
UK	5.66	+0.80	+0.08
US	5.58	+0.72	-
ECU	4.97	+0.11	-0.61

Source: Interactive Data/FT Information. London closing. * New York closing. Annualised yield basis.

EMERGING MARKET BONDS

Jun 3	Red date	Coupon	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd vs US
EUROPE								
Croatia	02/02	7.000	[illegible]	98.1343	7.58	[illegible]	-0.14	+2.01
Poland	07/04	7.125	BBB-	102.0831	6.70	[illegible]	+0.12	+1.12
Russia	06/07	10.000	[illegible]	91.1500	11.60	-0.19	+1.87	+6.02
LATIN AMERICA								
Argentina	09/27	9.750	BB	93.9000	10.41	-0.28	+0.33	+4.60
Brazil	05/27	10.125	[illegible]	91.9000	11.06	-0.18	+0.68	+5.25
Mexico	05/26	11.500	[illegible]	116.8000	9.73	[illegible]	+0.38	+3.93
ASIA								
China	07/06	7.750	BBB+	105.4886	6.84	[illegible]	[illegible]	+1.26
Philippines	10/16	8.750	[illegible]	92.6296	9.61	[illegible]	[illegible]	+3.93
Thailand	04/07	7.750	BBB-	93.4538	8.84	[illegible]	+0.41	+3.26
AFRICA/MIDDLE EAST								
Lebanon	07/00	9.125	[illegible]	101.9182	8.09	-0.08	+0.28	+2.54
South Africa	10/06	8.375	BB+	104.4120	7.63	[illegible]	[illegible]	+2.05
Turkey	09/07	10.000	B	101.3283	9.76	[illegible]	+0.29	+4.18
BRADY BONDS								
Argentina	03/23	5.750	BB	75.2500	8.36	-0.05	[illegible]	+2.80
Brazil	04/14	5.000	BB-	78.0000	10.23	-0.07	+0.72	+4.56
Mexico	12/19	6.250	BB	83.7500	7.62	-0.03	+0.08	+2.11
Venezuela	03/20	6.750	B+	83.8750	8.37	-0.01	+0.15	+2.65

London closing. Prices in US$. Standard & Poor's ratings. Source: Interactive Data/FT Information.

BOND FUTURES AND OPTIONS

France

NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	104.34	104.34	-0.06	104.35	104.29	30	111,719
Sep	103.84	103.86	-0.02	103.84	103.82	30	17,862

Ecu

ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	104.04	104.04	-0.24	-	-	-	4,487

US CORPORATE BONDS

US INTEREST RATES

INTERNATIONAL BONDS

UK BONDS

FTSE Actuaries Govt. Securities

FT Fixed Interest Indices

UK GILTS PRICES

Other Fixed Interest

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CURRENCIES & MONEY

Dollar falls as G7 prospects buoy yen

MARKETS REPORT

By Susanna Voyle

Questions over next week's meeting of the Group of Seven leading industrial nations continued to fixate the currency markets yesterday. The dollar fell against the yen for the second day in a row while the D-Mark strengthened as analysts said problems in Japan and Russia were expected to top the agenda when the G7 deputies meet in Paris.

In quiet, nervous trading, comments from Robert Rubin, US Treasury secretary, helped underpin both currencies. Mr Rubin said he remained concerned about the weak yen and confirmed that the G7 deputies would discuss possible additional financial aid for Russia.

Mark Cliffe, international economist at HSBC Markets in London, said Mr Rubin's comments had "given strength" to the possibility of central bank intervention to prop up the flagging yen.

At one point the dollar fell back Y1.375 to Y137.47 during trading in Europe – but it recovered somewhat on profit-taking to end the day at Y138.285 in London.

The D-Mark rose on hopes of an international aid package for the troubled Russian economy. Relatively high demand for Russian treasury bill auctions also signalled that the immediate devaluation of the rouble was looking less likely. The dollar fell almost 1 pfennig against the D-Mark to close at 1.7719.

■ Nervous profit-taking was blamed for the fall in the dollar against the yen. Analysts predicted that the situation would remain the same until after the G7 meeting. "The market is very nervous and will continue so for the next week or so," said Jim O'Neill, at Goldman Sachs.

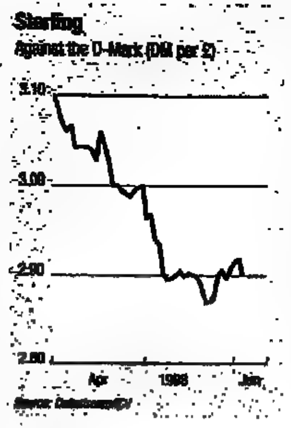
Analysts remained undecided whether the G7 meeting would lead to intervention – especially as the recent rise in the yen had taken some of the heat out of the situation. However, they pointed out that the market position supported the dollar.

"At some stage [intervention] is inevitable," said Mr O'Neill. "But there are two problems from a US perspective. Firstly, until the Japanese economy looks better, if the US came in and it succeeded, it could only succeed by hurting the US.

"Secondly, the US feels that they have got Japan in a bit of a corner and there is a genuine chance that there will be real significant policy change after the upper house elections on July 5."

Sterling

Against the D-Mark (DM per £)



Source: Datastream/ICV

■ Sterling fell sharply against the D-Mark after a survey showed slower growth in the service sector. At one point the pound was down more than 2 pfennigs, but rose slightly to end the day at DM2.9016, a loss of just over 1.5 pfennigs.

The monthly survey of purchasing managers by the Chartered Institute of Purchasing and Supply followed last week's Confederation of British Industry enquiry, which showed a worsening outlook for manufacturers' export prospects.

"These are division two statistics, but they support the view that the service sector side of the economy has to slow down significantly," said Mark Geddes, treasury economist with ABN-Amro.

He said sterling was helped by the market waiting for today's announcement on interest rates from the Bank of England. "Sterling would probably have fallen further had it not been for the MPC meeting," he said.

"Most people are not looking for a rate rise, but it's fair to say there's more uncertainty this time around."

■ The New Zealand dollar traded around its lowest levels against the US dollar for five years during European hours yesterday, continuing its downward trend, *writes Richard Adams.*

Don Brash, the governor of the New Zealand central bank, told an audience in London that he was uneasy at the country's large current account deficit, predicted to reach 8.2 per cent of GDP this year. But the balance of payments deficit would eventually cure itself, although he warned the adjustment could be painful.

Mr Brash also defended the bank's use of its Monetary Conditions Index. He told the FT the index should be seen as "an influence", rather than a mechanical tool for setting monetary policy.

■ POUND IN NEW YORK

Jun 3	Latest	Prev. close
£ spot	1.6395	1.6385
1 mth	[illegible]	1.6360
3 mth	1.6322	1.6315
1 yr	1.6180	1.6147

■ OTHER CURRENCIES

Jun 3	£	$
Czech Rp	53.4200 - 53.5773	32.6880 - 32.7070
Hungary	348.635 - 349.125	213.080 - 213.130
Iran	4914.30 - 4911.30	3000.00 - 3008.00
Kuwait	0.5012 - 0.5019	0.3062 - 0.3064
Peru	4.6903 - 4.6954	2.8650 - 2.8670
Poland	5.6423 - 5.6538	3.4465 - 3.4515
Russia	10.0867 - 10.0986	6.1610 - 6.1650
U.A.E.	6.0127 - 6.0171	3.6725 - 3.6732

POUND SPOT FORWARD AGAINST THE POUND

Jun 3		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	Day's Mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. Index
Europe													
Austria	(Sch)	20.4171	-0.1101	073 - 269	20.5422	20.3780	20.3611	3.8	20.2208	3.8	19.7484	3.3	103.2
Belgium	(BFr)	59.8543	-0.3253	951 - 135	60.1730	59.7760	59.6608	3.8	59.2757	3.8	57.8907	3.3	102.8
Denmark	(DKr)	11.0512	-0.0605	462 - 562	11.1196	11.0291	11.0206	3.3	10.9584	3.4	10.7294	2.9	106.3
Finland	(FM)	8.8181	-0.0475	125 - 236	8.8690	8.8010	8.7901	3.8	8.7353	3.8	8.5363	3.2	81.1
France	(FFr)	9.7308	[illegible]	240 - 357	9.7880	9.7130	9.6982	4.0	9.6341	4.0	9.4075	3.3	108.2

[illegible]

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Jun 3		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	J.P. Morgan Index
Europe													
Austria	(Sch)	12.4577	-0.0695	555 - 599	12.5410	12.4510	12.4457	2.1	12.4027	2.1	12.2262	1.9	103.1
Belgium	(BFr)	36.5500	-0.208	290 - 780	36.7300	36.5190	36.4858	2.1	36.358	2.1	35.87	1.9	102.7
Denmark	(DKr)	6.7464	-0.0382	474 - 494	6.7837	6.7390	6.7398	1.8	6.7218	1.6	6.6481	1.5	[illegible]
Finland	(FM)	5.3848	-0.03	830 - 865	5.4100	5.3784	5.3757	2.0	5.3581	2.0	5.2893	1.8	80.8
France	(FFr)	5.9418	-0.031	403 - 433	5.9700	5.9335	5.931	2.2	5.9093	2.2	5.828	1.9	105.8

[illegible]

WORLD INTEREST RATES

MONEY RATES

[illegible]

EURO CURRENCY INTEREST RATES

[illegible]

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

[illegible]

UK INTEREST RATES

LONDON MONEY RATES

[illegible]

EMS EUROPEAN CURRENCY UNIT RATES

[illegible]

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	92.500	92.500	-	92.520	92.490	10859	147367
Sep	92.640	92.630	-0.010	92.650	92.620	8618	118906
Dec	92.810	92.810	-0.010	92.830	92.790	17674	128243
Mar	93.000	93.010	-0.010	93.090	92.990	16800	104102
Jun	93.210	93.210	-0.010	93.230	93.190	6300	84606

Also traded on APT. All Open interest figs. are for previous day.

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

Strike Price	CALLS Jun	CALLS Sep	CALLS Dec	PUTS Jun	PUTS Sep	PUTS Dec
92625	0			0.125		
92750	0	0.040	0.180	0.250	0.160	0.120
92875	0			0.375		

Est. vol. total, Calls 4476 Puts 1858. Previous day's open int., Calls 454323 Puts 326231

■ EUROLIRA OPTIONS (LIFFE) L1000m points of 100%

Strike Price	CALLS Jun	CALLS Sep	CALLS Dec	PUTS Jun	PUTS Sep	PUTS Dec
94875	0.065			0.040		
95000	0.025	0.830	0.875	0.125	0.010	0.005
95125	0.005			0.230		

Est. vol. total, Calls 26780 Puts 18841. Previous day's open int., Calls 286166 Puts 301328

COMMODITIES & AGRICULTURE

European natural gas prices forecast to fall

By Robert Corzine

Natural gas prices in western Europe could come under sustained downward pressure this year, according to a book on the forthcoming liberalisation of the European gas industry.

Jonathan Stern, a UK-based gas industry expert says growing competition between gas suppliers to Europe will be the main factor in driving down prices at European borders.

By 2000, big gas producers such as Russia, the Netherlands, Norway, Algeria and the UK will have new gas supply and export pipeline capacity totalling 50bn cubic metres, equivalent to 10 per cent of European demand.

But much of the spare capacity is directed at the north-west corner of the continent, where competition is likely to be especially fierce.

Mr Stern predicts that the first sign of price pressure will coincide with the opening at the end of this year of the UK-Continent Interconnector linking Bacton on the Norfolk coast with Zeebrugge in Belgium.

Pressure will grow as three big export lines (two from Norway and one from Russia) come on stream over the next three years.

Mr Stern believes European prices could fall by 25-30 per cent from 1997 levels, with competition among suppliers accounting for half the expected fall.

The remainder is likely to come from increasing competition for industrial customers in individual European markets, most of which are still monopolies, but which are being opened to competition as a result of European Union directives.

Expanded short-term trading of gas within Europe "will contribute significantly to the start of serious gas-to-gas competition, and the emergence of a spot, and eventually futures, markets, initially in the northwest of continental Europe", said Mr Stern.

He does not expect continental European countries to follow the UK example of opening the whole domestic gas market to competition. He believes most will want lower prices for industrial consumers, but will be unlikely to extend competition to the residential or small business sectors.

Mr Stern also expects existing gas monopolies to defend their positions for as long as possible, given that present profit margins for national pipeline companies range from 15-25 per cent or more. "Margins in the new world of competition will be a fraction of what they are now," he said.

"Competition and Liberalisation in European Gas Markets" published by The Royal Institute of International Affairs, 10 St James's Square, London SW1Y 4LE

Jamaica digs deep to put its bauxite house in order

The government, miners and refiners have agreed to make *efforts to restore the industry's edge,* writes **Canute James**

Jamaica's bauxite miners and refiners have reached an agreement with the government and trade unions to try to restore the industry's competitive edge and ensure expansion of output.

Rising costs are not only threatening Jamaica's position as the world's third largest bauxite producer after Australia and Guinea but also plans by the miners and refiners to invest hundreds of millions of dollars to expand and upgrade refineries, which are operating at full capacity.

"The Jamaican industry has lost some of its competitiveness over the past five years . . . when compared against other producers such as Australia, Brazil and India," says Dennis Morrison, senior director of economics for the Jamaica Bauxite Institute, a state agency that monitors the industry. "There were large *wage settlements driven by* high inflation and devaluations of the Jamaican currency."

Exports of bauxite and alumina brought revenues of $733m last year, slightly higher *than in 1996, and a* shift of production from Jamaica and a loss of markets would adversely affect the economy of the island of 2.5m people.

The tripartite agreement is designed to shore up the industry's position by strengthening co-operation and promoting safety and environmentally friendly practices.

The move to improve productivity coincides with a plan by the refiners to increase capacity. Longer-term plans aim to lift annual refining capacity by about a half to 4.5m tonnes over five years, *through greenfield* expansion and the refurbishing of plants.

All this will be meaningless, however, *if the industry* is not globally competitive.

Says one senior refinery official: "Labour relations in the industry have improved significantly over the past year, with signs of some fall in inflation and an acceptance by unions that there is a limit to what the industry can pay.

"There is, however, still a problem *in achieving* a competitive level of productivity. Producers are concerned that indicators such as tonnes produced per man hour and the overall production costs could easily slip to levels that would make Jamaica an unfavourable location for expanded operations."

The concerns have not adversely affected production, however. Jamaica's bauxite mines last year yielded 12.03m tonnes, 2 per cent more than 1996, while alumina production was 6 per cent higher at 3.39m tonnes.

The expansion has continued in the first quarter of this year with bauxite production running 1.7 per cent above the corresponding period of last year, and alumina up 2.9 per cent.

"The increase in the first quarter was due to higher operating levels by the refiners," said Mr Morrison. "All *the refineries have expanded* capacity and are operating at rated capacity."

Continued expansion of output is likely because of higher capital investment in mines and refineries, he says. *Before 1989,* per capita investment in the industry averaged $25m per year; since then it has averaged $80m per year.

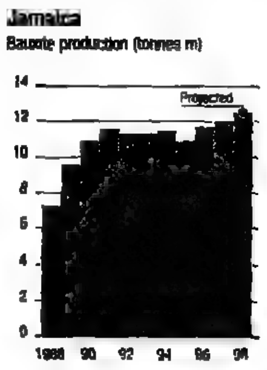
The industry is also vulnerable to the vagaries of the aluminium market *because its revenues from* bauxite and alumina are pegged to the price of the metal. Weaker metal prices will depress revenues this year, but the industry is hoping that higher output will compensate.

There is some optimism, however, that the industry will deal with the problems.

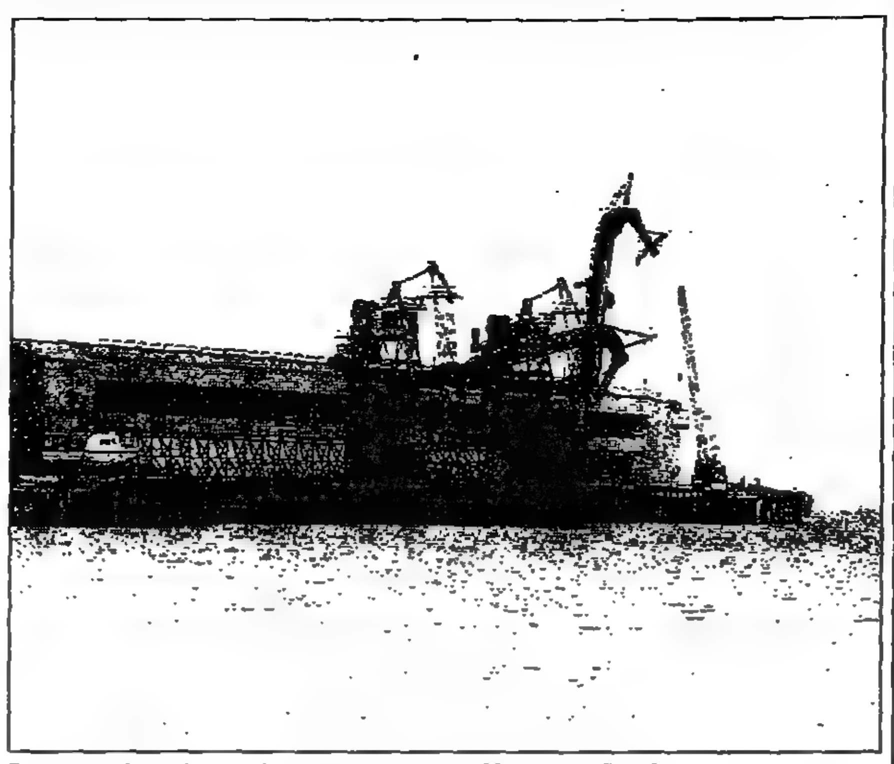
"With the stabilisation of the currency and with inflation contained to single digits, wage settlements should come down, helping overall productivity," said Mr Morrison.

"But the industry will continue to be affected by the fact that refineries tend to be smaller and older than those in other countries."

Jamaica
Bauxite production (tonnes m)



Source: Jamaica Bauxite Institute



Exports were higher last year but a loss of markets would adversely affect the economy

US data put pressure on oil prices

MARKETS REPORT

By Gary Mead

Oil prices came under renewed pressure yesterday following very bearish data from the American Petroleum Institute and the US Department of Energy, both reporting large inventory builds in primary diesel, heating oil and jet fuel.

Although stocks of crude oil dropped last week by 1.98m barrels to 347.5m barrels, according to the API, *this is still some* 24m barrels above last year's level. US gasoline stocks are now 216m barrels.

On the International Petroleum Exchange, Brent blend for July slid 24 cents to $13.90 a barrel at one point, but in later trading recovered to $14.02.

The Baltic Freight Index, the barometer for the world's *dry cargo freight* rates, slumped to an 11-year low yesterday, to 918 points.

The fundamental factor behind the slide, which began in February, is the economic slowdown in parts of south-east Asia, *combined* with a significant increase in the world's shipping fleet.

SSY Futures, the freight brokers, points out that in the Panamax sector (covering ships of 50,000 to 80,000 tonnes) time-charter revenues have collapsed from an average *of* $9,834 in 1997 to $7,200 so far this year; the current spot rate is even lower, at $6,450.

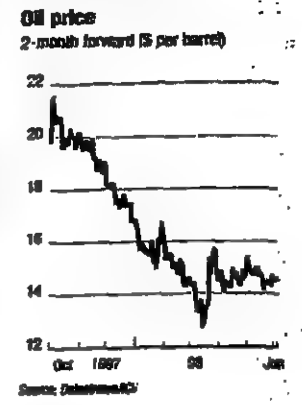
Palladium was "fixed" in London at $261 a troy ounce, down from Tuesday's $273 *and the lowest since March* 12.

The weakening price was seen as a response to reports that some supplies of Russian palladium sponge – the form in which the precious metal exists prior to being converted into ingots – are *reaching* Japanese electronics manufacturers.

Palladium supplies from Russia, which produces 60-70 per cent of world output, have been interrupted by bureaucratic problems.

"*This is either* an indication that the Russians are living from hand-to-mouth or that Norilsk [the Russian mine] is adopting different selling arrangements," said one analyst.

Oil price
2-month forward ($ per barrel)



Source: Datastream/ICV

Base metals moved *upwards on the London* Metal Exchange; three-month copper closed at $1,705 a tonne, up $43, although traders still felt the market to be weak, particularly as the summer slowdown approaches.

Tin, however, rose strongly, to $5,900 at one stage, a new 4½-year high. The three-month price closed at $5,980 a tonne, up $150 on Tuesday's close. Specialists pointed to persistent low stock levels and looming supply tighiness as being behind the bullish mood.

On Liffe, coffee futures continued to climb amid moderate volumes, with the day's total being 4,245 lots. The July contract finished at $1,780 a tonne, $14 higher.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE
(Prices from Amalgamated Metal Trading)

ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1335.5-36.5	1364-65
Previous	1318-19	1347-48
High/low		1370/1350
AM Official	1324.5-25.5	1354.5-55.0
Kerb close		1367-68
Open int.	280,692	
Total daily turnover	64,834	

ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	1245-50	1245-50
Previous	1235-45	1240-35
High/low		1240/1235
AM Official	1236-37	1237-39
Kerb close		1240-45
Open int.	8,438	
Total daily turnover	1,201	

LEAD ($ per tonne)

	Cash	3 mths
Close	542.5-43.5	555-56
Previous	541.5-2.5	555-6
High/low		559/552
AM Official	537-38	551-51.5
Kerb close		553-54
Open int.	38,178	
Total daily turnover	9,233	

NICKEL ($ per tonne)

	Cash	3 mths
Close	4645-55	4720-30
Previous	4550-55	4630-35
High/low		4750/4630
AM Official	4575-80	4645-50

Precious Metals continued

GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	292.7	+2.1	293.2	289.7	695	1,494
Aug	295.3	+2.1	296.2	292.3	35,053	86,469
Oct	297.5	+2.1	297.5	295.0	439	6,107
Dec	299.5	+2.1	300.0	298.8	602	21,465
Feb	301.2	+2.1	300.0	300.0	497	9,558
Apr	303.0	+2.1	300.0	300.0	16	7,848
Total					38,041	171,275

PLATINUM NYMEX (50 Troy oz., $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	358.0	-6.5	367.5	352.0	1,644	8,875
Oct	358.5	-6.0	358.5	356.0	48	1,819
Jan	357.5	-6.0	368.0	368.0	80	103
Apr	356.5	-5.5	360.0	360.0	1	12
Total					1,883	10,899

PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	260.00	-4.75	262.00	253.10	119	356
Sep	249.00	-2.75	254.00	240.00	754	3,264
Dec	246.00	-1.75	250.00	235.00	247	679
Total					1,120	4,299

SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	517.8	+1.0	521.0	510.0	12,647	55,979
Sep	521.0	+1.0	522.0	514.5	1,258	11,420
Dec	524.3	+1.0	526.5	518.0	269	14,326
Jan	525.1	+1.0	-	-	-	16
Mar	525.8	+1.0	529.0	525.0	4	3,132
May	526.8	+1.0	530.0	520.0	27	616
Total					14,330	93,121

ENERGY

CRUDE OIL NYMEX (1,000 barrels, $/barrel)

PULP AND PAPER

PULPEX OMLX (US$ 24 air dry tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	470.25	-20.75	491.00	470.25	155	301
Sep	516.25	-2.75	518.50	516.00	65	594
Total						

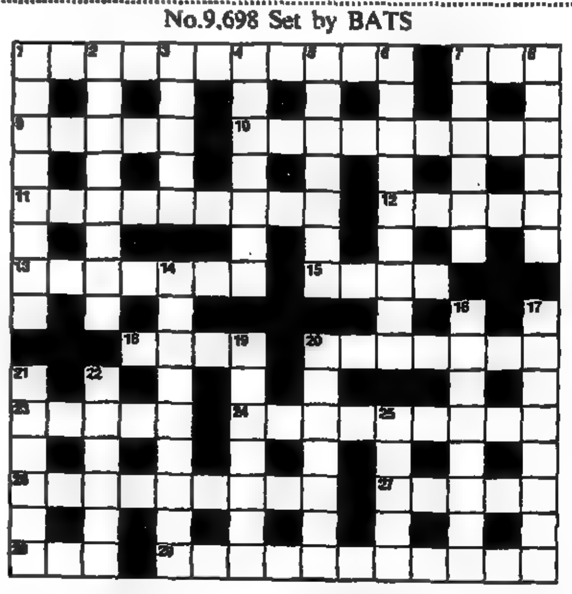
FUTURES DATA
All futures data supplied by CMS.

Nuts and seeds Prices from Kenkko London $ per m/t. Iranian pistachios 28/30 raw (in shell) naturally opened (round) crop 1997 at $3,500 FCA or CFR from Iran. Down due to slow sales. Turkish hazelnuts 13.15 and 11/13, for new crop indication $4,200 CFR. Indian cashews crop 1996 CFR from top shippers. W320 at $5,431, W240 at $5,200, market stable. US almonds new crop estimate at 560m pounds; standard 5 per cent crop 1997 at $4,300 FAS, crop 1998 at $4,500. Argentine peanuts 38/42 at $750 CIP Europe for new crop

JOTTER PAD

CROSSWORD

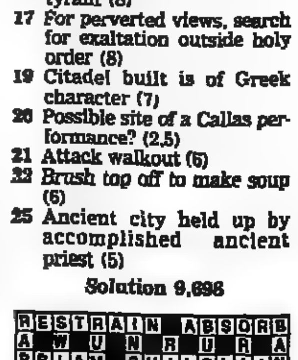
No.9,698 Set by BATS

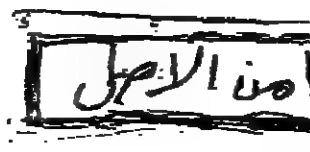


ACROSS
1 Preposterous town plan, Mid-Sussex con (8,3)
7 Weed in sink (3)
9 Material placed behind home (5)
10 Strong wind covers coast, *surprisingly,* in sugar (9)
11 "Kitchen Container, the Kettle", a hurried work of little artistic value (9)
12 Fitter of horse? (5)
13 Lists batting chances (7)
15 Sadly, a girl is cut (4)
18 Tummy tuck? (4)
20 Make tracks, we hear, to join prominent points on landscape (3,4)
23 Fantastic at sex, where everything's supposedly bigger (5)
24 Desperate measure near the finish of steeplechase? (4,5)
26 One makes love in the morning (or a grateful quickie?) (9)
27 Up to 50 following shambolic unit (5)
28 Slippery fish makes general retreat (3)
29 The last drink and "hic", door's revolving (4-2-5)

DOWN
1 Frank's given job, parking and benefit (4-4)
2 Scope tops triteness (8)
3 Horse play in Japan? I'm not sure (5)
4 Shakes false hair on false legs (7)
5 Disease requiring sick notes? (7)
6 Random screen, say, is essential (9)
7 Tiny particle supporting large weight (6)
8 The Circle Line hypothesis (6)
14 This promise comes after the vote (9)
16 Tact misplaced in Christian tyrant (8)
17 For perverted views, search for exaltation outside holy order (8)
19 Citadel built is of Greek character (7)
20 Possible site of a Callas performance? (2,5)
21 Attack walkout (6)
22 Brush top off to make soup (6)
25 Ancient city held up by accomplished ancient priest (5)

Solution 9,696





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FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OFFSHORE AND OVERSEAS

BERMUDA (FSA RECOGNISED)

BERMUDA (REGULATED)(**)

GUERNSEY (FSA RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (FSA RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (FSA RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (FSA RECOGNISED)

JERSEY (REGULATED)(**)

LUXEMBOURG (FSA RECOGNISED)

Offshore Funds and Insurances

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

ABN AMRO Funds - Contd.

Aberdeen Fund Mngrs (Luxembourg) Ltd (u)

Fleming Group - Contd.

Foreign & Colonial Emerging Markets Ltd (u)

Foreign & Colonial Portfolios Fd Sicav(u)

Morgan Stanley Sicav

ACM Offshore Funds - Contd.

Credit Suisse Asset Mgmt Funds - Contd.

Merrill Lynch Asset Management - Contd.

Swiss Bank Corporation - Contd.

"WINTERTHUR" Fund Mngmt Co (Lux) SA

WP Stewart Global Growth Fund

World Invest SICAV

World Trust Fund

OFFSHORE INSURANCES

Aberdeen International Ltd

Albany International Assurance Ltd

Irish Life International Ltd

Isle of Man Assurance Ltd

LUXEMBOURG (REGULATED)(**)

ACM Offshore Funds

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FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

● FT Cityline: Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

[illegible]

OTHER OFFSHORE FUNDS

[illegible]

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

	Notes	Price	+ or -	52 week high	52 week low	Volume '000s	Yld Gr's	P/E
Allied Domecq	†N	603xd	-4½	646	407½	2,781	4.1	14.7
Bulmer (HP)	†	356	-3½	682½	285	17	5.2	11.0
Burn Stewart	‡	21		70½	19½	92	10.1	-
Diageo	♣N	714xd	+7½	784	432	3,880	2.5	31.2
Glenmorangie A	◊	802½	—	885	755	-	2.2	♦
B	◊	912½	—	1000	890	-	1.0	♦
Highland	†	305½	—	347	250	2	2.7	14.1
5¼pc Cv Sb Bd		98		99½	85½	-	5.9	-
Kirin Y		887½	-1½	654½	416½	-	0.9	-
Matthew Clark	‡†	108	+1	277½	157	28	12.8	6.1
Merrydown	†	50		100½	37½	-	7.8	-
Seagram C$		£25⅛	-1½	£28⅞	£18⅛	-	1.1	-

BANKS, RETAIL

[illegible]

BREWERIES, PUBS & REST

[illegible]

BUILDING MATS. & MERCHANTS

[illegible]

CHEMICALS

[illegible]

CONSTRUCTION

[illegible]

CONSTRUCTION - Continued

[illegible]

DISTRIBUTORS

[illegible]

DIVERSIFIED INDUSTRIALS

[illegible]

ELECTRICITY

[illegible]

ELECTRONIC & ELECTRICAL EQPT

[illegible]

ENGINEERING

[illegible]

ENGINEERING - Continued

[illegible]

ENGINEERING, VEHICLES

[illegible]

ENGINEERING, VEHICLES - Continued

[illegible]

EXTRACTIVE INDUSTRIES

[illegible]

EXTRACTIVE INDUSTRIES - Continued

[illegible]

FOOD PRODUCERS

[illegible]

GAS DISTRIBUTION

[illegible]

HEALTH CARE

[illegible]

HOUSEHOLD GOODS & TEXT

[illegible]

INSURANCE

[illegible]

INSURANCE - Continued

[illegible]

INVESTMENT TRUSTS

[illegible]

INVESTMENT TRUSTS - Continued

[illegible]

INV TRUSTS SPLIT CAPITAL

[illegible]

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LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Continued

[illegible]

OTHER INVESTMENT TRUSTS

The following investment trusts are not eligible for inclusion in the FTSE Actuaries Share Indices.

Approved by the Inland Revenue

[illegible]

INVESTMENT COMPANIES

[illegible]

LEISURE & HOTELS

[illegible]

LIFE ASSURANCE

[illegible]

MEDIA

[illegible]

MEDIA - Continued

[illegible]

OIL EXPLORATION & PRODUCTION

[illegible]

OIL, INTEGRATED

[illegible]

OTHER FINANCIAL

[illegible]

PAPER, PACKAGING & PRINTING

[illegible]

PHARMACEUTICALS

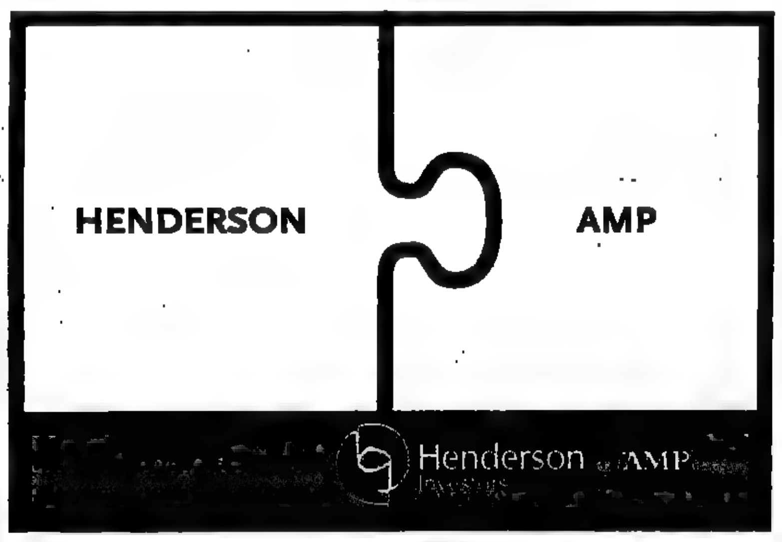
[illegible]

PHARMACEUTICALS - Continued

[illegible]

PROPERTY

[illegible]



PROPERTY - Continued

[illegible]

RETAILERS, FOOD

[illegible]

RETAILERS, GENERAL

[illegible]

RETAILERS, GENERAL - Continued

[illegible]

SUPPORT SERVICES

[illegible]

SUPPORT SERVICES - Continued

[illegible]

TELECOMMUNICATIONS

[illegible]

TOBACCO

[illegible]

TRANSPORT

[illegible]

TRANSPORT - Continued

[illegible]

WATER

[illegible]

AIM

[illegible]

AIM - Continued

[illegible]

AMERICANS

[illegible]

CANADIANS

[illegible]

SOUTH AFRICANS

[illegible]

TRADED INDEX SECURITIES

[illegible]

GUIDE TO LONDON SHARE SERVICE

Prices and trading volumes for the London Share Service are delivered by Extel, part of Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. For FTSE 100 Index constituents and reserves contained in the Trading Volume table on the LSE page, last trade prices at or prior to 4.30pm market close are shown, as these shares are now traded on the Stock Exchange Electronic Trading System ("SETS"). Highs and lows are based on intra-day mid-price/last trades over a rolling 52 week period.

Trading Volumes are end of day accumulated totals. Dashes indicate that either no trade has taken place during the day or the data is not available for those particular securities. Volumes shown for foreign securities are based on London trading.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from latest available local Stock Exchange prices.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Earnings used in calculations are based on IIMR 'Headline Earnings' formula.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm +) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- * Highs and lows marked thus have been adjusted to allow for capital changes
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ⊕ Figures or report awaited
- ♥ Rule 2.1(a)(iv) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- ‡‡ Rule 4.2(a) Irish incorporated non-listed companies.
- # Price at time of suspension
- ‡ Indicated dividend yield after pending scrip and/or rights issue
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Yield based on annualised dividend
b Figures based on prospectus or other official estimates.
g Assumed dividend yield after rights issue.
h Assumed dividend yield after scrip issue.
n Rights issue pending
q Earnings based on preliminary figures.
s Dividend yield includes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings
z Dividend yield includes a special payment
F Yield based on prospectus or other official estimates for 1998-99.
G Assumed yield after pending scrip and/or rights issue.
H Yield based on prospectus or other official estimates for 1997.
K Yield based on prospectus or other official estimates for 1998
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1997-98.
R Dividend is paid in whole or part as a FID (Foreign Income Dividend)
T Forecast annualised yield, p/e based on prospectus or other official estimates.
W Pro forma figures.
Z Dividend yield to date.

Abbreviations:
xd ex dividend;
xc ex scrip issue;
xr ex rights;
xa ex all;
xc ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1485 a year for each security shown, subject to the Editor's discretion

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The share prices printed on these pages are also available on the Internet at http://www.FT.com.

Interest rate optimism triggers rally in shares

MARKET REPORT

By Steve Thompson, UK Stock Market Editor

Evidence of a slowdown in UK services, an area said to have been causing inflationary concerns at the Bank of England, provided a much-needed boost to London's equity market yesterday.

The Chartered Institute of Purchasing and Supply survey was interpreted by the market as virtually dispelling any lingering worries that UK interest rates might be increased by the Bank's monetary policy committee. The result of the committee's meeting will be announced at midday today.

There were other reasons for the return of confidence yesterday. Wall Street was only modestly lower overnight and most Asian markets delivered comforting performances, especially Hong Kong, which rallied 2.5 per cent.

And US stocks made modest progress at the start of trading in New York yesterday, shrugging aside worries about tomorrow's May non-farm payroll report.

The FTSE 100 index finished the day 56.1 higher at 5,898.4, having hit a session-high of 5,913.6 minutes before Wall Street opened.

There was growing excitement on the FTSE 250 trading desks as the index representing the second-liners moved to within 0.2 of its previous intra-day and closing record, eventually finishing 22.8 higher at 5,920.4.

Although some distance from its previous records, the FTSE SmallCap index moved up 6.6 to 2,769.1.

London's rally came as no surprise to some strategists. Mark Howdle, European strategist at Salomon Smith Barney, pointed out that since March the UK market had underperformed the rest of Europe by 10 per cent. Salomon has underweighted the UK market since initiating European strategy coverage in March. "We now see an opportunity to make a tactical switch and overweight the UK." Salomon qualifies its shift by saying it expects UK interest rates to fall and sterling to continue to weaken.

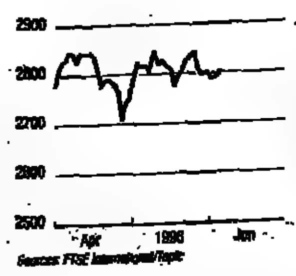
Mr Howdle said: "The UK looks the low-risk market of Europe at present. While other important factors, such as demand for equities, merger and acquisitions activity and earnings momentum still favour continental Europe over the UK medium-term, we see the UK clawing back some of its recent underperformance over the next few months." Salomon introduced BPB and Lloyds TSB to its model European portfolio, instead of Akzo Nobel and ING.

On the technical side, chartists at Merrill Lynch said any break below the FTSE 100 5,700 support level "would signal a further decline in following weeks, extending to 5,300". Merrill said that, unless the Dow Jones Industrial Average moves back above 9,000 in the next couple of days, the risk in the US is a further 5-10 per cent slide – retracements to 8,500-8,100.

Richard Lake, chartist at Brewin Dolphin, the broker, said: "My short-term target area of 5,500 to 5,700 for the FTSE 100 is becoming much more likely. Wall Street turned bearish last week."

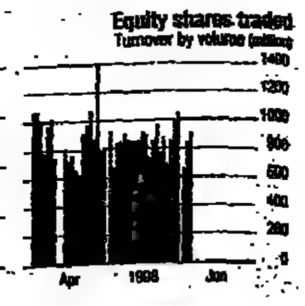
Turnover in equities expanded again, reaching 920m shares at 6pm, boosted by big technical activity in Shell and after ABN Amro moved into the stock market to buy Courtaulds shares on behalf of bidder Akzo Nobel.

FTSE All-Share index



Source: FTSE International/Topic

Equity shares traded
Turnover by volume (million)



Indices and ratios

FTSE 100	5898.4	+56.1
FTSE 250	5920.4	+2.8
FTSE 350	2877.2	+24.2
FTSE All-Share	2813.58	+22.59
FTSE All-Share yield	2.79	2.81
FT 30	3858.6	+20.3
FTSE Non-Fins p/e	23.24	23.25
FTSE 100 Fut Jun	5918.0	+22.0
10 yr Gilt yield	na	5.67
Long gilt/equity yld ratio	na	2.11

Best performing sectors

1 Data unavailable for this edition
2
3
4
5

Worst performing sectors

1 Data unavailable for this edition
2
3
4
5

Bid buzz drives MFI

COMPANIES REPORT

By Martin Brice and Peter John

Furniture retailer MFI saw heavy trade of 7m shares as a story went the rounds that Ikea, the Swedish furniture store, was running its slide rule over the company. The talk helped MFI to become one of the better FTSE 250 performers, the stock rising 5½ to 87½p.

The tale marked a change from the old chestnut of a bid from Kingfisher, down 9 at £10.80 in 2.3m traded. Analysts said Ikea, a privately owned company started 55 years ago with a current worth estimated at about £5bn, would acquire retail space by purchasing MFI, but they questioned whether it would also want the manufacturing capacity that MFI possessed.

One analyst said: "On the other hand, it may be the best way of realising some value for MFI shareholders at this stage in the cycle."

Turnover in London was boosted by very heavy volume in Shell Transport.

One block of 45m shares went through the electronic ticker just after 2pm at 449p a share and led to final volume of 55m shares.

Some confusion ensued over the origin of the trade. The fact that it was marked at a couple of pennies above the best spread and yet did not affect the underlying share price suggested it might have been a wrongly printed trade.

However, the stock exchange said the trade was correctly carried out at a realistic price and represented an equity swap, initially booked in dollars.

It is believed the trade represented one side of a stock lending deal that will not result in a permanent change in ownership.

The shares ended the day flat at 447¼p with pressure from slightly discouraging American Petroleum Institute data and a fire at one of its Rotterdam refineries.

API figures showed a rise in gasoline stocks and analysts said they should have been lower because of the increase in driving seen during the summer.

The data had more of an impact on BP, which is more geared to the underlying oil price and which ended a net 5½ lower at 882½p.

Courtaulds fell sharply in spite of some very heavy buying as the market decided that the white flag had been raised before the bid battle began.

PPG of the US announced it had terminated discussions with DLJ Merchant Banking Partners regarding a possible joint offer for Courtaulds. It has reached agreement with Akzo of the Netherlands to acquire, for £175m, the coatings businesses of Courtaulds, subject to Akzo's offer succeeding.

It was assumed by many analysts that Akzo would succeed in its 450p a share offer for Courtaulds. After the market closed Courtaulds said Akzo had bought 40.6m shares – just under 10 per cent – at 448p a share through SBC Warburg Dillon Read.

However, there were dissenting voices. One broker said that, unless the bid went unconditional next week, it still had another five weeks to run and the game was not over. Courtaulds slipped 21½ to 444p.

Growing institutional investor interest in information technology stocks was highlighted by a series of positive broker comments as analysts increased their coverage of the sector.

The strongest rise of the day in the FTSE 350 was achieved by software and services group CMG, said to be helped by strong buying in early trading on the Amsterdam exchange, where the stock is also listed.

The shares rose 9.5 per cent, or 165, to £19.05 where they stood at about 78 times this year's forecast earnings. Morgan Stanley Dean Witter yesterday initiated coverage of the company, and attached a price target of £25 to the shares.

However, not all analysts were so bullish on the stock, with Graham Brown at Sutherlands easing his stance on the company from "long-term buy" to "hold" following recent outperformance by the shares.

He said the shares, which on Friday went through a 1-for-1 split, had stood at the equivalent of £14.45 on the day of an analysts' visit to the company 13 trading days ago.

FI Group falls

Merrill Lynch this week initiated coverage of FI Group with a "buy" note that said earnings growth at the IT services and contracting group were forecast to exceed 40 per cent during the next two years. The shares were off 5 at 687½p, where they stood at 30 times this year's earnings.

Mirror Group shed 10½ to 233p as investors fretted at the lack of activity from Axel Springer of Germany.

However, rival Daily Mail Trust moved forwards along with WPP, the marketing services group. Institutions were buying on anticipation that the two companies would go into the Footsie after next week's review.

Daily Mail 'A' shares rose 35 to £31.70 and WPP gained 10½ to 423½p.

J Mowlem was up 2 at 133½p after Merrill Lynch initiated coverage of the company with a strongly positive note called "Hot Stuff". The 12-page research gave a 222p sum-of-the-parts valuation for the shares.

Mark Hake at the broker said: "There is tremendous value in this business." The 222p-a-share valuation contained 53p for the company's stake in SGB and 17p for the cash in the business.

The first day of trading in Game saw it rise from the placing price of 200p to 230p, giving the computer games retailer a market capitalisation of £170m.

Shares in Heal's, the department store, were up 1½ at 178p after posting underlying interim results up 31 per cent to £2.2m.

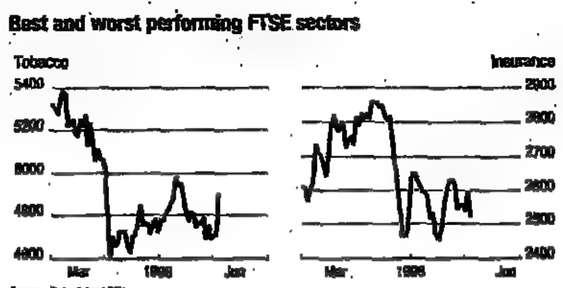
SmithKline Beecham closed 13½ higher at 665½p. Sutherlands told clients the stock had suffered an undeserved 15 per cent underperformance against the FTSE All-Share.

Venture capital group 3i dominated the performance in the FTSE 100 with a rise of 34½ to 850p prompted by selected buying in the tightly traded stock before data today.

BAT Industries rallied after recent weakness with investors responding to strength in Zurich, which is merging with BAT. The shares ended the day 28½ higher at 581½p on heavy turnover of 13m.

Lloyds TSB improved 4½ to 891½p as the market came round to the idea that recent downgrades were linked to one-off provisions rather than a fundamental downturn.

Best and worst performing FTSE sectors



Source: Datastream/ICV

FT 30 INDEX

	Jun 3	Jun 2	Jun 1	May 29	May 28	Yr ago	*High	*Low
FT 30	3858.6	3838.3	3820.0	3821.7	3834.9	2971.5	3928.3	3819.3
Ord. div. yield	2.87	2.89	2.90	2.89	2.88	3.68	4.22	2.79
P/E ratio net	23.98	23.85	23.76	23.81	23.89	18.03	26.41	15.80
P/E ratio nil	23.75	23.64	23.55	23.60	23.68	17.84	26.18	15.71

FT 30 since compilation: high [illegible] low 49.4 26/06/40. Base Date: 1/7/35.

FT 30 hourly changes

Open	9	10	11	12	13	14	15	16	High	Low
3832.6	3830.1	3836.9	3839.0	3842.2	3850.9	3855.2	3854.1	3847.4	3859.9	3819.3

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STOCK MARKET TRADING DATA

	Jun 3	Jun 2	Jun 1	May 29	May 28	Yr ago
SEAQ bargains	64,695	80,118	62,101	65,267	57,446	42,597
Equity turnover (£m)†	-	-	-	-	[illegible]	2370.0
Equity bargains†	-	-	-	-	[illegible]	39,418
Shares traded (m)†	-	-	-	-	738.0	703.4
Total market bargains‡	-	80,898	62,499	66,539	62,881	-
Total turnover (£m)‡	-	4108.9	3044.7	4788.3	4166.8	-
Total shrs traded (m)‡	912.7*	913.5	987.2	1154.2	990.2	-
Tradepoint turnover (£m)	27.7	20.8	8.8	31.8	33.5	5.3
Tradepoint shrs traded	8,351	4,456	4,318	12,613	11,730	1,987

†Excluding intra-market and overseas turnover but including Crest turnover. *UK only total at 6pm. ‡ UK plus extra-market turnover.

■ London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	829	Total Highs	169	Total contracts	25,659
Total Falls	894	Total Lows	49	Calls	12,083
Same	1,471			Puts	13,556

Jun 3 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

■ FTSE 100 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	5860.0	5920.0	+78.0	5934.0	5860.0	19270	152419
Sep	5935.5	5983.5	+78.5	5983.5	5935.5	2909	24792
Dec	-	6076.0	+78.0	-	-	0	800

■ FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	-	5918.0	+22.0	-	-	0	4713
Sep	-	6013.0	+22.0	-	-	0	2245

■ FTSE 100 INDEX OPTION (LIFFE) (*5850) £10 per full index point

[illegible]

■ EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point

[illegible]

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt cap (£m)	1998 High	1998 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
[illegible]											
-	F.P.	0.48	25	22	Hambros E	22		-	-	-	-
§160	F.P.	60.0	284½	182½	ICM Computer	252½	-12	L2.63	2.6	1.3	38.4
§325	F.P.	22.0	400	330	†Inter-Alliance	400		-	-	-	-
§103	F.P.	31.1	160½	114½	JWE Telecom	160½	-10½	N1.54	3.8	1.2	28.8
-	F.P.	19.2	97½	88½	†James R Knowles	96½		[illegible]	-	3.5	-
-	F.P.	124.4	84½	71½	London Pacific	79	+2½	L2.3	4.2	3.6	8.1
-	F.P.	234.4	280½	272½	Melrose	280		L5.0	2.5	2.2	22.5
*	F.P.	-	100	100	Pennine Downing VCT	100		-	-	-	-
-	F.P.	-	140½	132½	Taiwan IT GDR	132½		-	-	-	-
§200	F.P.	163.9	248½	200½	[illegible]	235	+½	L3.0	2.4	1.6	29.2
§170	F.P.	1,975	200	176	Thomson Travel	187½	+6½	W2.6	2.8	1.6	22.8

† Alternative Investment Market. § Placing price. * Introduction. For a full explanation of all other symbols please refer to The London Share Service notes.

FTSE GOLD MINES INDEX

	Jun 2	% chg on day	Jun 1	Year ago	Gross div yield %	P/E ratio	52 week High	52 week Low
Gold Mines Index (32)	1099.54	+2.1	1076.17	1543.98	2.26	-	1590.71	861.23
■ Regional Indices								
Africa (14)	1158.88	+0.8	1149.59	1721.10	4.81	28.89	1744.62	821.78
Australasia (7)	1186.02	-4.6	1242.87	1754.12	2.77	17.43	1757.50	833.83
North America (11)	1016.95	+3.6	978.90	1474.95	1.23	39.29	1574.16	864.86

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FTSE Actuaries Share Indices — The UK Series

Produced in conjunction with the Faculty and Institute of Actuaries

	Jun 3	Day's chge%	Jun 2	Jun 1	Year ago	Gross yield%	Net yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FTSE 100	5898.4	+1.0	5842.3	5837.8	4567.1	2.79	2.38	2.03	22.12	74.60	2579.40
FTSE 250	5920.4	+0.4	5897.6	5896.9	4467.8	2.79	[illegible]	2.04	21.98	80.93	2535.14
FTSE 250 ex IT	5991.4	+0.4	5966.5	5957.8	4474.3	2.88	2.42	2.10	20.76	62.41	2574.98
FTSE 350	2877.2	+0.8	2853.0	2851.4	2213.0	2.79	2.38	2.03	[illegible]	35.04	2570.30
FTSE 350 ex IT	[illegible]	+0.8	2855.9	2854.1	2211.7	2.81	2.37	2.04	21.83	35.34	1319.73
FTSE 350 Higher Yield	2795.7	+0.6	2779.2	2773.2	2152.5	3.80	3.25	1.80	17.34	44.48	2134.35
FTSE 350 Lower Yield	2964.1	+1.0	2933.7	2935.5	2279.0	2.08	1.77	2.27	27.84	27.44	2152.18
FTSE SmallCap	2769.08	+0.2	2762.54	2761.81	2277.75	2.01	2.27	1.81	27.61	26.01	2405.74
FTSE SmallCap ex IT	2777.33	+0.3	2770.44	2769.86	2262.90	2.97	2.41	1.88	25.10	27.18	2437.38
FTSE All-Share	2813.58	+0.8	2790.99	2789.45	2174.47	2.79	2.35	2.00	22.37	33.74	2550.64
FTSE All-Share ex IT	2818.76	+0.8	2795.97	2794.23	2172.42	2.82	2.38	2.02	21.99	34.19	1314.69

■ FTSE Actuaries Industry Sectors

	Jun 3	Day's chge%	Jun 2	Jun 1	Year ago	Gross yield%	Net yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
10 RESOURCES(22)	4707.79	-0.2	4716.99	4705.86	4360.14	3.23	2.79	1.72	22.81	74.28	2165.76
12 Extractive Industries(8)	3033.28	+0.7	3012.48	3009.13	4323.58	4.83	4.24	2.03	13.31	76.82	957.38
15 Oil, Integrated(4)	5267.34	-0.4	5288.25	5267.89	4504.67	3.20	2.74	1.84	23.79	79.87	2492.41
16 Oil Exploration & Prod(12)	3363.69	+0.3	3352.44	3379.18	3659.68	1.70	1.40	1.98	37.10	32.03	2069.77
20 [illegible] INDUSTRIALS(210)	2403.26	-0.1	2406.45	2436.09	1894.93	3.06	2.69	2.22	18.35	28.76	1410.95
21 Construction(38)	1737.69	+0.3	1731.88	1719.53	1373.22	2.80	2.27	2.66	16.86	19.25	1549.79
22 Building Matls & Merchs(29)	2049.99	-0.3	2057.18	2098.10	1829.49	3.84	3.11	2.03	16.89	29.76	1116.27
23 Chemicals(24)	3038.91	-0.4	3050.72	3077.10	2397.09	3.11	2.80	1.73	23.24	41.83	1555.67
24 Diversified Industrials(10)	1464.62	-1.4	1485.10	1493.77	1309.09	3.70	3.49	2.40	14.06	20.65	900.06
25 Electronic & Elect Equip(25)	2818.63	+0.9	2793.42	2772.59	1991.46	3.06	2.45	1.82	25.17	21.45	1553.20
26 Engineering(72)	3206.20	-0.3	3214.91	3306.40	2482.29	2.91	2.38	2.48	17.53	39.36	2067.73
27 Engineering, Vehicles(10)	4554.78	-0.1	4557.43	4545.64	2748.93	1.98	1.79	3.31	19.29	39.42	2508.54
[illegible]											
105 FTSE All-Share ex IT(746)	2818.76	+0.8	2795.97	2794.23	2172.42	2.82	2.38	2.02	21.99	34.19	1314.69
Information Technology	1694.87	+1.4	1671.54	1684.86	-	0.51	0.41	3.49	69.96	3.58	1699.19
FTSE Fledgling	1505.92	+0.3	1501.84	1502.33	1279.48	2.92	2.36	1.44	29.70	14.75	1687.41
FTSE Fledgling ex IT	1541.20	+0.2	1537.55	1538.02	1289.15	3.21	2.60	1.51	25.83	16.47	1713.20
FTSE AIM	1137.9	+0.2	1135.1	1131.5	1071.1	1.11	0.88	0.43	80.00†	3.83	1051.29

■ Hourly movements

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FTSE 100	-	5862.0	5881.5	5872.7	5880.5	5893.3	5901.8	5900.6	5903.7	5913.6	5840.0
FTSE 250	-	5901.3	5904.8	5907.0	5909.4	5912.2	5910.6	5914.3	5920.5	5920.6	5891.3
FTSE 350	-	2861.1	2869.1	2865.8	2869.1	2874.4	2877.8	2877.5	2879.3	2882.3	2851.5
FTSE SmallCap	2763.75	2764.61	2764.48	2764.79	2765.41	2766.51	2767.16	2768.45	2769.00	2769.21	2763.76
FTSE All-Share	-	2798.51	2805.86	2802.87	2805.92	2810.87	2813.83	2813.79	2815.48	2816.11	2789.73

Time of FTSE 100 Day's high: 14:20:00 Day's low: 8:33:00. FTSE 100 1998 High: 6105.8 (06/04/98) Low: 5088.7 (12/01/98)
Time of FTSE All-Share Day's high: 14:20:00 Day's low: 8:33:00. FTSE All-Share 1998 High: 2947.10 (06/04/98) Low: 2588.92 (12/01/98)

Further information is available on http://www.ftse.com

† Sector P/E ratios greater than 80 are not shown. ‡ Values are negative. Deletions: Streamline (FTSE SmallCap).

FTSE INTERNATIONAL

TRADING VOLUME

■ Major Stocks yesterday.

	Vol 000's	Closing price	Day's change
3i	302	850	+34½
Abbey National	997	1073	+25
Alpha Group	14,800	[illegible]	+7
[illegible]			

Based on trading volume for the FTSE 100 constituent companies and some additional [illegible]. † Indicates a FTSE 100 Index member. [illegible]

هكذا من الاصل

هكذا من الاجل

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

PACIFIC

AFRICA

AMERICAS

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the indices.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	TUESDAY JUNE 2 1998 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	MONDAY JUNE 1 1998 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (72)	191.97	-0.8	173.84	168.48	177.82	207.43	-0.8	3.82	198.49	175.22	170.78	179.09	209.18	243.87	190.26	234.01
Austria (23)	244.46	-0.5	221.37	214.55	226.45	228.31	-0.4	1.48	245.71	222.51	216.87	227.42	227.29	253.73	181.60	195.01
Belgium (26)	355.37	0.2	321.81	311.89	329.19	322.12	0.3	2.25	354.49	321.01	312.88	328.10	321.01	357.37	234.33	247.23
Brazil (26)	223.81	5.9	202.67	196.43	207.32	474.26	5.8	2.16	211.42	191.45	186.60	195.68	448.35	322.44	184.94	269.59
Canada (120)	239.79	0.6	217.14	210.45	222.12	252.36	0.4	1.59	238.47	215.95	210.48	220.72	251.41	248.78	199.10	207.10
Denmark (34)	508.57	0.7	460.94	446.35	471.10	469.42	0.8	1.29	504.87	457.19	445.61	467.29	465.70	521.81	375.32	379.05
Finland (28)	419.69	0.5	380.05	368.34	388.77	478.92	0.8	1.92	417.50	378.07	368.49	388.42	474.07	451.12	267.45	270.06
France (78)	326.72	1.0	295.87	288.75	302.65	306.11	1.1	1.92	323.44	292.89	285.47	299.36	302.86	328.64	213.42	213.42
Germany (58)	297.31	0.0	268.23	260.93	275.40	275.40	0.1	1.21	297.40	269.32	262.49	275.26	275.26	303.12	204.89	209.11
Greece (37)	293.76	0.9	266.02	257.82	272.12	638.22	0.6	1.42	291.10	263.61	256.93	269.43	634.60	307.94	264.68	–
Hong Kong, China (66)	256.80	0.1	232.55	225.38	237.88	255.49	0.1	6.17	258.60	232.37	226.48	237.50	255.29	580.03	256.80	528.88
Indonesia (27)	31.48	-4.9	28.49	27.61	29.14	226.76	-3.9	3.12	33.09	29.97	29.21	30.63	236.01	254.90	27.26	245.35
Ireland (16)	512.33	-0.8	463.95	449.85	474.59	509.68	-0.7	1.92	516.19	467.44	455.60	477.76	513.39	560.44	336.68	339.36
Italy (54)	165.55	1.2	149.91	145.29	153.35	217.08	1.3	1.29	163.55	148.11	144.35	151.38	214.28	177.15	88.93	87.56
Japan (480)	90.96	2.0	82.37	79.83	84.25	79.83	1.5	0.99	89.15	80.73	78.68	82.51	78.68	141.12	88.52	132.51
Malaysia (106)	144.84	1.7	131.17	127.12	134.17	217.84	0.8	2.96	142.39	128.95	125.68	131.79	216.07	541.84	113.58	538.89
Mexico (29)	1435.53	1.4	1289.96	1259.90	1329.78	13953.16	1.3	1.75	1415.52	1281.84	1249.36	1310.14	13777.24	1901.98	1415.52	1438.01
Netherlands (19)	523.31	0.2	473.89	459.28	484.76	479.60	0.3	1.93	522.03	472.73	460.75	483.17	478.12	532.74	372.67	372.67
New Zealand (14)	66.23	-0.9	59.97	58.13	61.35	67.08	-0.3	4.54	66.85	60.54	59.01	61.88	67.28	96.47	66.23	90.31
Norway (38)	313.14	-0.3	283.57	274.83	290.08	319.18	-0.5	1.97	314.18	284.51	277.30	290.79	320.81	374.64	281.62	313.19
Philippines (22)	85.22	-1.7	77.18	74.80	78.95	166.17	-2.3	1.25	86.69	78.50	76.51	80.23	170.10	173.10	57.54	173.10
Portugal (18)	275.31	-0.9	249.31	241.63	255.03	343.77	-0.8	1.11	277.76	251.52	245.15	257.08	346.67	299.39	275.31	–
Singapore (42)	183.49	-0.2	148.05	143.49	151.44	128.50	-1.2	2.40	163.83	148.36	144.60	151.63	128.04	401.75	144.01	395.78
South Africa (42)	286.30	1.9	259.26	251.27	265.20	321.98	0.6	2.67	260.82	254.30	247.85	259.91	320.12	384.24	227.56	353.52
Spain (31)	384.05	0.7	347.78	337.06	355.76	440.17	0.8	1.74	381.29	345.28	336.54	352.91	436.75	398.54	238.28	243.81
Sweden (49)	591.07	-0.4	535.25	518.75	547.53	682.92	-0.6	1.71	598.58	537.52	523.90	549.39	687.23	615.21	439.98	448.79
Switzerland (30)	408.52	-0.2	369.94	358.54	378.42	375.11	0.0	1.10	409.49	370.82	361.42	379.00	375.14	414.95	285.85	290.95
Thailand (38)	17.54	2.3	15.89	15.40	16.25	28.43	1.7	9.45	17.14	15.52	15.13	15.87	27.94	69.09	13.10	64.97
United Kingdom (206)	378.09	0.1	342.38	331.83	350.23	342.38	0.1	2.88	377.73	342.06	333.39	349.61	342.06	401.84	293.10	284.40
USA (633)	445.89	0.3	403.78	391.34	413.05	445.89	0.3	1.44	444.71	402.71	392.51	411.61	444.71	462.18	340.47	343.67
Americas (808)	403.26	0.3	365.17	353.92	373.55	340.97	0.3	1.46	401.90	363.95	354.73	371.98	339.86	418.95	311.99	314.67
Europe (745)	359.63	0.2	325.67	315.64	333.14	340.10	0.3	1.99	358.76	324.66	316.64	332.05	339.10	367.09	256.75	256.75
Euroblock (351)	104.11	0.5	105.95	108.65	104.26	104.27	0.6	1.53	103.61	105.44	108.73	103.67	103.89	108.34	100.00	–
Nordic (149)	513.73	-0.1	465.21	450.87	475.88	519.73	-0.2	1.70	514.11	465.58	453.76	475.89	520.70	536.56	388.30	388.30
Pacific Basin (667)	97.83	1.6	88.59	85.86	90.62	86.19	1.1	1.73	96.34	87.24	85.03	89.17	85.28	158.99	95.32	151.65
Euro-Pacific (1612)	206.96	0.6	187.41	181.84	191.71	161.84	0.5	1.91	205.72	186.29	181.57	190.40	181.03	216.04	172.03	195.52
North America (753)	432.78	0.3	391.91	379.83	400.80	432.92	0.3	1.45	431.58	390.82	380.92	399.45	431.78	448.61	332.46	335.33
Europe Ex. UK (539)	338.06	0.3	306.13	298.70	313.15	328.38	0.4	1.55	336.99	306.16	297.43	311.90	327.11	345.25	230.74	230.74
Europe Ex. Euroblock (394)	98.11	0.0	99.84	102.38	98.25	99.28	0.0	2.34	98.11	99.85	102.87	98.17	99.24	100.97	95.35	–
Europe Ex. UK Ex. Euroblock (188)	102.06	-0.2	103.86	106.50	102.20	102.04	-0.1	1.32	102.24	104.05	107.30	102.30	102.16	104.20	99.32	–
Pacific Ex. Japan (387)	164.89	-0.3	149.32	144.72	152.74	171.02	-0.4	4.56	165.31	149.70	145.91	153.00	171.70	318.88	161.31	315.61
World Ex. Euroblock (2111)	96.51	0.5	87.40	84.71	89.40	97.43	0.4	1.68	96.07	87.00	84.79	88.92	97.06	100.18	96.07	–
World Ex. US (1829)	210.16	0.7	190.31	184.44	194.67	189.79	0.6	1.91	208.75	189.04	184.25	193.21	187.74	220.18	175.30	199.06
World Ex. UK (2256)	277.41	0.6	251.21	243.47	256.97	254.98	0.5	1.53	276.01	249.94	243.61	255.46	253.86	287.02	234.24	240.31
World Ex. Japan (1982)	382.79	0.3	346.64	335.86	354.59	376.83	0.3	1.74	381.66	345.61	338.86	353.24	375.72	394.39	301.68	302.84
The World Index (2462)	285.95	0.5	258.94	250.98	264.88	262.89	0.4	1.67	284.62	257.74	251.21	263.43	261.83	296.57	241.30	244.97

 CONSTITUENT CHANGE: Name change: Ebro Agricolas to Azucarera Ebro Agricolas (Spain).

Emerging markets: IFC investable indices

4 pm close June 3

NEW YORK STOCK EXCHANGE PRICES

1998 High	Low	Stock	Div	Yld %	P/E	Vol 100s	High	Low	Close Price	Chng Prev
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

- A -

- B -

- C -

- D -

- E -

- F -

- G -

- H -

- I -

- J -

- K -

- L -

- M -

- N -

- O -

- P - Q -

- R -

- S -

- T -

- U -

- V -

- W -

- X - Y - Z -

Price data supplied by Extel, part of FT Information.

Yearly highs and lows for NYSE reflect the period from Jan 1 1998. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Volume figures are unofficial.

d-new yearly low. P/E price-earnings ratio. vol- volatile. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full. ¶ Dealings suspended.

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GLOBAL EQUITY MARKETS

US INDICES

Dow Jones	Jun 2	Jun 1	May 29	1998 High	1998 Low	Since compilation High	Since compilation Low
Industrials	8891.24	8922.37	[illegible]	9211.84 (13/5)	7580.42 (9/1)	9211.84 (13/5/98)	41.22 (8/7/32)
Home Bonds	104.97	104.97	104.97	105.48 (15/1)	104.42 (11/9)	105.48 (15/1/98)	54.99 (1/10/81)
Transport	3259.30	3272.01	3340.61	[illegible] (16/4)	3184.36 (9/1)	[illegible] (16/4/98)	13.23 (8/7/32)
Utilities	291.28	281.81	284.85	291.31 (1/6)	282.85 (9/1)	291.31 (1/6/98)	16.53 (8/7/32)

DJ Ind. Day's high 9014.05 ([illegible]) Low [illegible] ([illegible]) (Theoretical‡) Day's high [illegible] (8981.41) Low 8872.30 ([illegible]) (Actual‡)

Standard and Poors	Jun 2	Jun 1	May 29	1998 High	1998 Low	Since compilation High	Since compilation Low
Composite‡	1093.22	1090.98	1090.82	1130.54 (22/4)	927.69 (9/1)	1130.54 (22/4/98)	4.40 (1/6/32)
Industrials¶	1272.25	1268.78	1272.55	1311.46 (22/4)	1077.40 (9/1)	1311.46 (22/4/98)	3.52 ([illegible])
Financial¶	133.01	132.49	131.52	140.83 (14/4)	110.85 (9/1)	140.83 (14/4/98)	7.13 ([illegible])
Others							
NYSE Comp.	585.35	586.14	585.38	[illegible] (22/4)	487.47 (9/1)	[illegible] (22/4/98)	4.46 ([illegible])
Amex Comp	706.30	707.91	714.80	753.67 (22/4)	646.41 (12/1)	753.67 (22/4/98)	524.20 ([illegible])
NASDAQ Comp	1781.79	1748.82	1778.88	1917.81	1503.22	1917.81	54.87
Russell 2000	440.70	451.17	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

US DATA

■ MARKET ACTIVITY

■ NYSE TRADING ACTIVITY

■ ACTIVE STOCKS

■ BIGGEST MOVERS

■ NASDAQ TRADING ACTIVITY

Dow Jones

FTSE Eurotop 300

JAPAN

FRANCE

GERMANY

UK

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WORLD MARKETS AT A GLANCE

THE NASDAQ STOCK MARKET

4 pm close June 3

THE NASDAQ STOCK MARKET

AMEX PRICES

4 pm close June 3

EASDAQ

STOCK MARKETS

Moscow and Karachi rises spread calm

WORLD OVERVIEW

A steadier Japanese yen, and a revival in the Russian and Pakistani markets created a helpful background for world stock markets yesterday, *writes Philip Coggan.*

Concern about the potential effect of a declining yen on other countries in the region – notably Hong Kong, China and Korea – had held back Asian markets.

Russia's woes were highlighted when the central bank tripled interest rates to defend the rouble while the Karachi bourse fell sharply after last week's nuclear tests.

But Russia gained more than 8 per cent yesterday, helped by a successful Treasury bill auction, while Karachi jumped 13.6 per cent.

European stock markets took the hint and powered ahead. Paris, Frankfurt and Brussels hitting all-time closing highs, with the former gaining 1.5 per cent. Russia's rebound also gave a lift to the eastern European markets.

"Like sirens to the sailors, European equities continue to draw investors in with an almost hypnotic enticement," said James Montier, global strategist at BT Alex Brown. However, he warned that investors may be taking too much on trust, particularly the European corporate sector's ability to deliver on restructuring promises.

The group's preference for Europe had increasingly resulted from a greater dislike of other world markets, Mr Montier added.

While BT Alex Brown takes a gloomy view, Goldman Sachs strategist Abby Joseph Cohen, one of the best known pundits of the bull market, was in London to speak at an investment seminar. She said she was "optimistic but not exuberantly bullish" about Wall Street and she is sticking to her end-year targets of 9,300 for the Dow Jones Industrial Average and 1,150 for the S&P 500 index.

Ms Cohen believes the bull market will continue into 1999 since she is hard-pressed to find signs of economic deterioration in the US. "It will be a long time before the US faces troublesome inflation or declining economic or profits growth."

At the same seminar, Jeffrey Weingarten, Goldman's global strategist, said the world bull market had been justified by the substantial gap between the return on, and cost of, capital for corporations. He thought this difference could be maintained.

Rather than concentrating on geographical asset allocation decisions, he urged investors to focus on those companies with above-average returns on equity; in many cases, the stock markets had not given these companies an adequate premium rating.

Tech stocks gain after $7bn deal

AMERICAS

Wall Street had a calm, though positive session, with investors returning to technology shares, *writes John Labate in New York.*

The tone of trading was positive as investors examined Tellabs' $7.1bn takeover of Ciena, the fibre optic equipment producer. Ciena surged $4¼, a rise of more than 7 per cent, to $61 13/16, while Tellabs fell $2 5/16 to $63 11/16. The announcement sent many other communications shares higher on speculation of more deals to come.

Cisco Systems, the leading networking product maker, rose $1 13/16 to $77¼ on rumours that the company had considered a takeover of Ciena or Tellabs.

Other networking shares were bid higher, including Bay Networks, which had been considered a takeover candidate. Bay rose $⅞ to $28¾. 3Com surged more than 8 per cent or $1 15/16 to $25 13/16.

Enthusiasm for communication stocks did not rub off on the general market, however, which continued to trade in a cautious range.

By early afternoon the Dow Jones Industrial Average was 4.23 higher at 8,895.47 while the broader Standard & Poor's 500 index gained 1.84 to 1,095.06.

Strength in the networking sector helped keep tech shares climbing. The Nasdaq composite was 9.90 higher at 1,771.69. Semiconductor stocks were mostly higher, with Intel up $⅛ to $69⅞ and Texas Instruments $1 1/16 to $50 1/16. Dell Computer rose $2⅝ to $85¼, while Gateway 2000 gained $2⅛ or 4.75 per cent to $46⅞.

US Treasuries did little to help the stock market with bond prices falling back as the dollar slipped against the yen.

Traders await the week's most important economic report, tomorrow's labour report for May. Payroll growth is expected to slow, but analysts will have their eyes on the wage figure for early signs of inflation pressures.

By early afternoon the benchmark long bond was down 3/16 to 104 11/16, sending the yield up to 5.815 per cent.

Higher interest rates did little to help financial stocks. Chase Manhattan fell $¼ to $136 11/16 while BankAmerica was off $ 5/16 to $81 13/16.

Dow components were mixed although a few stocks had big gains. General Motors was $2¼ higher to $75¼ while AT&T climbed $1½ to $60 5/16. But Sears Roebuck, the retailer, was down $1 to $61⅛.

TORONTO made modest headway in early trading with the 300 composite index up 1.59 at 7,535.60 at noon.

Golds tracked the bullion price upwards but initial gains were pared. Placer Dome added 10 cents to C$17.85 but Barrick softened 15 cents to C$27.45.

Among other heavyweight sectors, banks were mixed. Royal Bank of Canada improved 35 cents to C$89.65 while Bank of Nova Scotia came off 30 cents at C$38.45.

Newbridge Networks' results statement sparked a wave of selling and the shares lost C$2.75 at C$39.15.

News that Northern Telecom had taken a 9 per cent stake sent Plaintree Systems shooting ahead by C$1.10 to C$3.00.

São Paulo drops back

SAO PAULO ran into profit-taking after Tuesday's near 6 per cent improvement and by midsession the Bovespa index was trailing by 166 or 1.6 per cent at 9,984.

Leftover buy orders sent shares higher at the opening bell, but sellers quickly appeared and by mid-morning there were heavy losses among blue chips.

Eletrobrás was among the heaviest casualties, sliding almost 6 per cent to R$39.50. Telebrás came off 1.3 per cent to R$125.30 and Petrobrás 0.4 per cent at R$238.

MEXICO CITY moved higher, with investors taking clear comfort from the better tone among east European emerging markets.

At midsession, the IPC index was up 7.36 at 4,487.37, although turnover was said to be relatively light.

Gainers outpaced losers 26 stocks to 3 with retail leader Cifra a firm feature, advancing 16 centavos to 12.46 pesos.

SANTIAGO also made progress with the IPSA index adding 0.67 at 88.37 at midsession.

Fresh Paris high sets pace

EUROPE

Record highs were achieved in PARIS as the CAC 40 index rose 56.89 to 4,143.87 to set the pace among leading bourses for the second day running.

Sanofi continued to climb on hopes for drugs sector consolidation, jumping FFr39 or 5.5 per cent to FFr747 as investors took their cue from the latest US mega-merger in the sector between Monsanto and AHP. Synthelabo, its sector rival in France, added FFr29 to FFr1,059.

Motors pushed higher, notably equipment suppliers. Valeo gained FFr22 to FFr600 and Michelin FFr12.10 to FFr388.60. Peugeot added FFr28 to FFr1,203 but Renault, up some 2.5 per cent at one stage as Goldman Sachs raised earnings estimates, ended FFr2 softer at FFr315.

Positive news in the US and Europe got behind Alcatel Alsthom, which rose FFr32 to FFr1,302. Among smaller caps, Moulinex jumped FFr8 or 4.6 per cent to FFr182.50.

FRANKFURT nudged to a record high with the Xetra Dax index up 56.89 at 5,640.42 at the end of electronic trading. Hopes for a confident statement at tomorrow's annual meeting continued to underpin Volkswagen, lifting the shares DM63 to DM1,518. Top of the range first-quarter results and hints of good news to come on the access fees sent Deutsche Telekom 86pfg ahead at DM49.50.

Utilities were in demand following recent positive broker comment. Veba added DM4.25 to DM124.75 and Viag DM22 to DM1,103. Construction group Hochtief added 70pfg to DM82.70 after Goldman Sachs increased its sum-of-the-parts valuation by 9 per cent to DM89 a share.

ZURICH rose 18.8 to 7,676.3 on the SMI index. CS Group was among the more active stocks, gaining SFr9.50 to SFr334 in turnover of more than SFr1bn in what was a largely subdued session.

SAirGroup, which climbed out of the red in 1997, bounced SFr12.50 to SFr461 on reports of a management strategy aimed at aggressively upgrading earnings potential over the next two years. Swiss Re added SFr21 to SFr3,483 and Zurich Insurance SFr14 to SFr940.

AMSTERDAM firmed after trading in a narrow range, with the AEX index up 7.18 to 1,207.63.

Chemicals were higher on the continuing effects of the merger between AHP and Monsanto. DSM rose Fl 6.70 to Fl 209.90 on comments by Simon de Bree, its chairman, in an in-house magazine that it aimed for sales of 10bn euros by 2002. Akzo rose Fl 14.30 to Fl 443.50 after PPG said it would not bid for Courtaulds of the UK.

ABN Amro, which is bidding for Generale Bank of Brussels, fell Fl 20 to Fl 48.80 on downgrades by analysts. Credit Suisse First Boston reduced its 1998 year-end price target from Fl 50 to Fl 45 while maintaining the stock as a hold; ING Barings downgraded the stock from "buy" to "hold".

Philips fell Fl 5.30 to Fl 182.70 on worries over Asia's impact on its profits. Royal Dutch Shell eased Fl 1.20 to Fl 112.90.

MADRID firmed on small-lot buying amid a thin market. The general index rose 2.72 or 0.3 per cent to 883.36. Most investors remained on the sidelines as many remained cautious over Asian and US markets.

Argentaria, the bank, rose Pta100 to Pta12,830 after it announced a four-for-one share split before the end of June. Dragados, the construction company, rose Pta110 to Pta4,870.

Endesa fell Pta20 to Pta3,600. Fears of oversupply under its share offer, which is part of its privatisation, weighed on prices.

MILAN firmed thanks to the strong performance of telecom companies. The Mibtel rose 182 to 24,014 in thin volumes.

Telecom Italia Mobile rose L383 to L10,678 following an analyst upgrade, while Telecom Italia added L202 to L13,540 ahead of its board meeting.

Pirelli rose L106 to L6,007 as investors regarded the share price undervalued compared with other cable and optic equipment makers.

BRUSSELS closed at its third consecutive high, thanks to low long-term interest rates. The Bel-20 index rose 17.33, or 0.6 per cent, to 3,280.35.

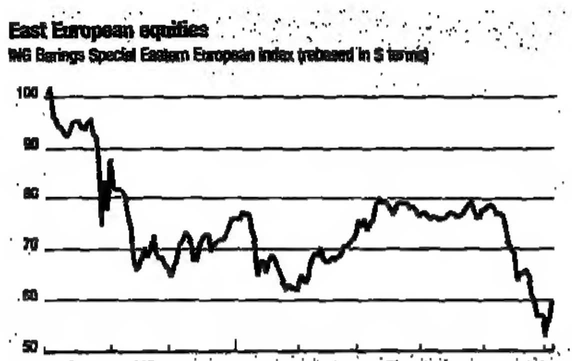
Generale Bank rose BFr175 to BFr27,150 while Fortis, the Belgo-Dutch financial group bidding for Generale, rose BFr1.10 to BFr121.30. Chemicals and drugs group Solvay was the day's frontrunner, rising 4.2 per cent to BFr2,865. UCB added 2.5 per cent to BFr183,050.

STOCKHOLM was affected by heavyweight Astra's decline, but the general index managed to limit its decline to 1.21 to end at 3,624.49. Astra lost SKr3 to SKr153.50 on fears of losses on increased parallel imports to Sweden. Stora, which announced a merger with Enso of Finland to create the world's largest paper and pulp company, resumed trading and closed up SKr15 to SKr142. The forestry index gained 3.2 per cent.

MOSCOW continued to rally strongly and the sentiment upturn for Russian equities spilled over on to a number of other east European stock markets.

BUDAPEST ended 538.15 or 7.5 per cent higher at 7,718.28 on the Bux index, while in WARSAW the Wig 20 index gained 80.9 to 1,587.5, a rise of 5.4 per cent.

- In Moscow, the RTS index put on 16.32 to 209.07 for a two-day advance of almost 25 per cent as mounting hopes for a support package from G7 nations allowed money markets to subside.



Written and edited by Jeffrey Brown, Emiko Terazono and Peter Hall

MARKET FOCUS

Danish package weakens shares

Investors in Danish equities have been bounced from one uncertainty to another this year.

A general election in March was followed in May by an 11-day strike that paralysed industry and transport. Then came last week's referendum on the Amsterdam treaty and, finally, this Tuesday, an important package of economic measures from the government.

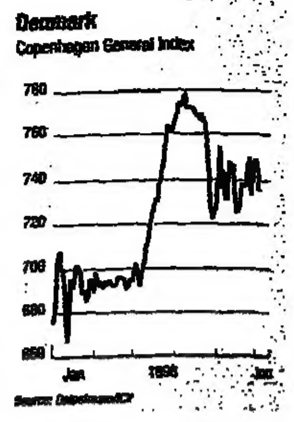
The financial markets have taken these events with considerable equanimity although Denmark's Nationalbank (central bank) temporarily raised short-term instrumental interest rates during the strike, when there was some selling of the krone.

In the share market, there was a brief bout of buying on Friday to celebrate the expected approval of the Amsterdam treaty, but the spree petered out quickly and left the all-share index slightly lower on the day.

Tuesday's economic package, which is daunting in its complexity, appeared to baffle the market at first, but yesterday there was a reaction, with the benchmark index falling 1.4 per cent to 232.13. This left the all-share index about 6.5 per cent down from its April high of 778.84, but still some 8 per cent ahead since the start of the year.

Tuesday's proposals have two implications for equities: first, the government proposes a reduction in the corporate income tax rate from 34 to 26 per cent in two stages – from 34 to 30 per cent in 1999 and from 30 to 26 per cent in 2000; second, that the government erases the incentive for using an individual tax-advantaged pension savings scheme.

To date, share investments under this scheme have not been taxed on the annual yield. This generated a lively interest in equity investment among small savers. The government has now proposed a tax of 10 per cent on the yield on these equity investments.



At the same time it has reduced the tax advantages of the scheme to the point where future savers may decide the scheme has no point, say tax specialists.

The effect of the two changes is to shift the tax burden from companies to individual investors. The net effect, says Mr Morten Lynge, chief equities dealer at Den Danske Bank, will be slight, but he predicted that the change would alter the structure of equity ownership to some extent.

"The foreign ownership share will rise and the share owned by individual Danes will fall," he says.

Companies with a large tax bill will benefit most from the reduction in corporate income tax, notably the banks. But because value added tax is not paid on financial services, the Danish government decided in the 1980s to penalise the banks with a special wage sum tax. This is now to go up, and will partially counter the reduction in corporate income tax.

Taken overall, the government measures – which were widely welcomed by Danish economists – are likely to take some steam out of the economy.

Hilary Barnes

Strong rand boosts Jo'burg

SOUTH AFRICA

A stronger rand and a rising bond market sent shares in Johannesburg ahead for the second day running.

At the close the all-share index was 42.0 higher at 7,569.9.

Industrials put on 75.3 at 9,123.6 and financials gained 151.1 to 13,401.8.

Golds turned lower as bullion softened. The golds index dipped 0.9 to 903.3.

Retailer Pick'n Pay was the day's hot stock, jumping 10.2 per cent to R9.20.

Profit-takers send Nikkei lower

ASIA PACIFIC

Listless trading in TOKYO took share prices lower as investors turned cautious after Tuesday's rebound, *writes Michiyo Nakamoto in Tokyo.*

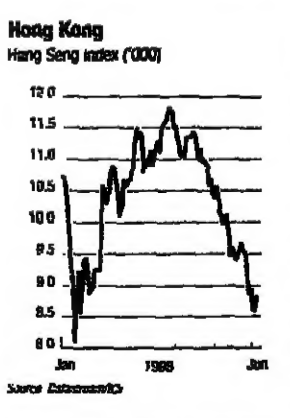
The Nikkei 225 average fell 207.45 to 15,347.00 on profit-taking by investors who were increasingly bearish about prospects of the Nikkei rising above 15,500. The key index fluctuated between a high of 15,525.52 and low of 15,256.09.

The Topix index of all first section stocks also fell, losing 7.64 to 1,205.33. Volume remained relatively low at 370m shares, although this was higher than Tuesday's 280m.

Trading was characterised by concerns about the weak economy and the weak yen on the one hand and firming demand from individual investors, who have become increasingly nervous about the stability of overseas markets.

As a result, share prices are expected to move within a relatively narrow range for some time.

The continuing uncertainty about Asian economies weighed on the market, which suffered from a lack of incentives.



Against this environment, securities companies continued to enjoy buying in the wake of Nikko Securities' tie-up with Travelers of the US. Nikko was the volume leader and gained Y40 to Y556.

It was followed by Daiwa Securities, another candidate for a possible alliance, which rose Y34 to Y591.

Issues with high dividends attracted attention from investors seeking an alternative to government bonds. Tokyo Electric Power gained Y65 to Y2,730. Oil distributors were shunned after reports that the sector was suffering lower sales. Nippon Oil fell Y1 to Y430 and Showa Shell Sekiyu lost Y30 to Y610.

Overall, falling issues exceeded risers 771 to 308. In Osaka, a similar lack of direction led the OSE average down 25.90 to 16,291.78.

SEOUL rallied ahead of today's national holiday, clawing back a large part of Tuesday's 3.7 per cent setback.

Banks were again in demand on hopes for sector consolidation. Hanil Bank was the day's most actively traded stock, rising Won125 to Won1,170 with 7.3m shares changing hands. The benchmark composite index ended 8.36 or 2.6 per cent higher at 332.46.

HONG KONG responded to a steadier day for the Japanese yen.

Brokers said a combination of modest bargain-hunting and futures-led short-covering was the main reason for the upturn.

Turnover stayed modest at HK$5.7bn.

HSBC rose HK$5.50 to HK$190. China Telecom put on 30 cents to HK$13.60. At the close, the Hang Seng index was up 221.05 or 2.6 per cent at 8,829.22.

JAKARTA fell 6.99 or 1.8 per cent to 392.60 on the composite index after touching a session-low of 384.71.

Brokers said the pared losses stemmed partly from companies buying their own shares.

In thin volumes, the buying was said to have had a disproportionate impact on share price movements. Indocement, for example, rose Rp725 to Rp3,600.

KARACHI continued to rally. The 100 index rose 126.93 or 13.6 per cent to 1,059.39 with short-covering by investors after the recent steep falls said to be again supplying the upward momentum.

Hub Power, which is appealing against tariff cuts, rose Rs2.65 to Rs21.15.

WELLINGTON ended at a 21-month low with a steep fall for index heavyweight Carter Harvey Holt leading the way down on the group's exposure to Asia. The shares declined 12 cents to NZ$2.08.

The 40 capital index lost 18.80 at 2,155.18 in turnover of NZ$97m.